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and BUSINESS ANALYST

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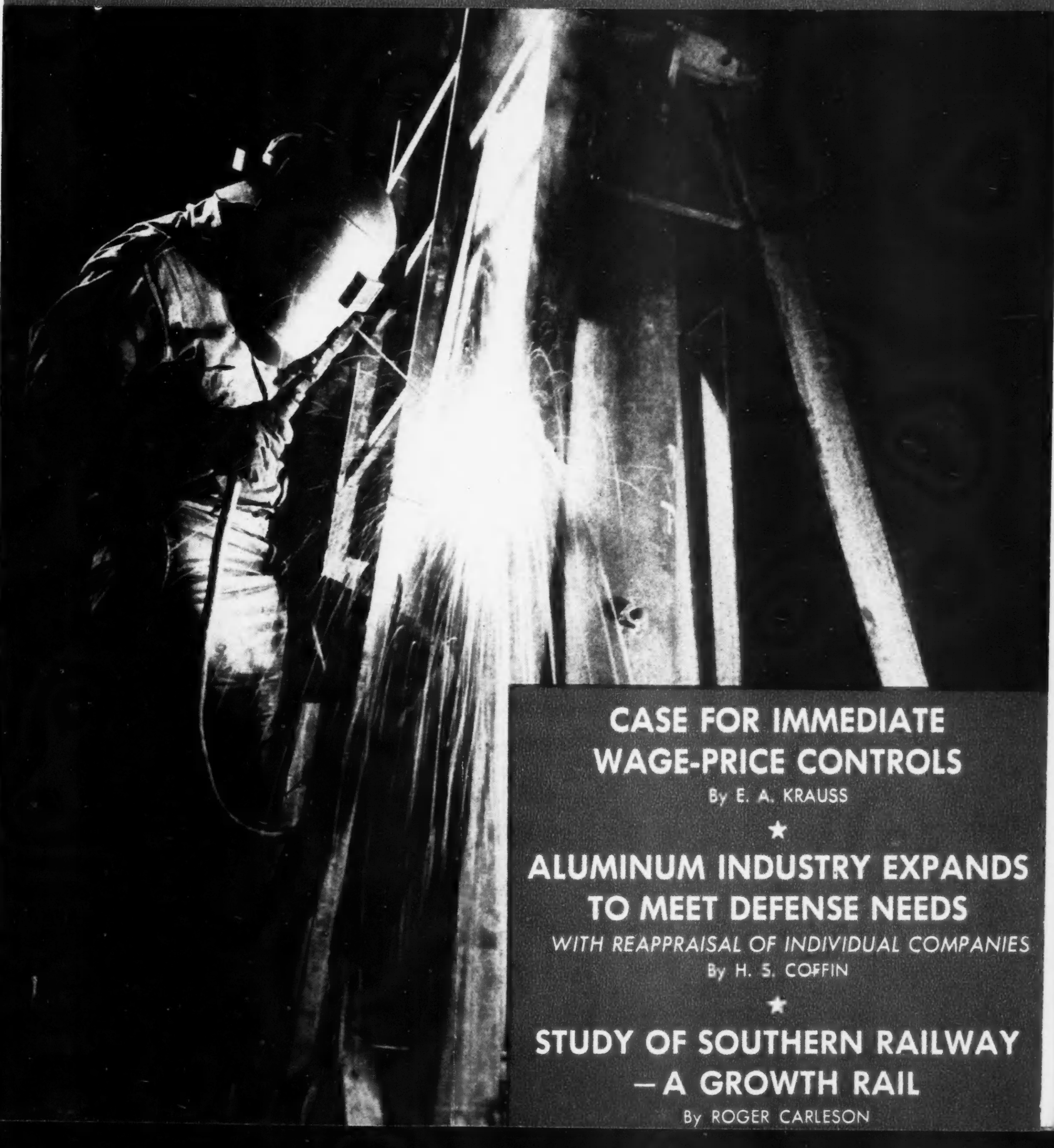

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THE MAGAZINE OF WALL STREET
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Frontispiece by Devaney

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THE MAGAZINE OF WALL STREET

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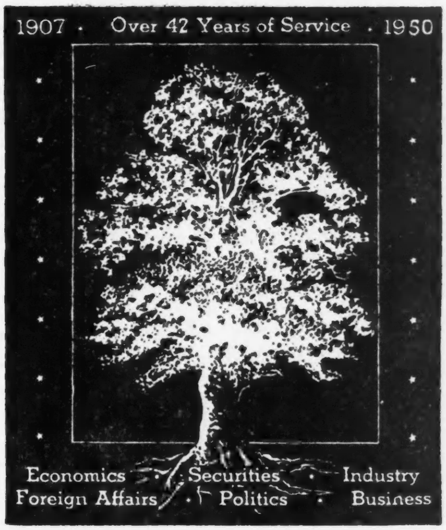


The Trend of Events

THE STATE OF EMERGENCY . . . proclaimed by President Truman obviously has a dual purpose. Foremost of all, it is meant to facilitate and expedite the translation into economic terms of the problems of meeting communist aggression without destroying the basis upon which our economy as well as the whole American way of life rests.

But the action is also designed to demonstrate that this country is setting an example for its allies in making civilian sacrifices to build up the West's defenses and in controlling its economy on an unprecedented peace-time scale as a major move towards international cooperation.

Although the President's speech was directed primarily at the American people, who will have to make the sacrifices and submit to controls, they were equally aimed at the ears of our wavering allies. Clearly the adverse news from Korea forced some critical decisions. There was real fear that the Red successes might unhinge the North Atlantic alliance. It was a situation that called for a gesture of strength and determination as did also, of course, the deterioration of our international position.

Washington now is set to do the things that spell real mobilization. The defense program is a thing of the past. The new plans are a war program born from growing conviction that eventually we will have to call Russia's hand, that we must gain the initiative. Our determination has not been lost on the free nations abroad—as an example of realistic appreciation of the world peril which all can observe and emulate. At least it instilled a new sense of urgency and of confidence in the purposes and strength of the United States.

The implications at home are unmistakable in general terms although it will be months yet before the full impact will be felt. It will be a long, hard pull with shortages, controls and high taxes running indefinitely into the future. The best we can expect is living and working in a "close-to-war" environment until expanding production can ease the burden of a big war program. The worst, obviously, would be total conflict with the communist world, neither impossible nor—and this should be stressed—a foregone conclusion.

Meanwhile the decisions made won't change our way of living, and of doing business, tomorrow or the day after. While they are the forerunner of painful actions to come, they simply lay out the dimensions of the job ahead, of the sacrifices in men and money to come. There will have to be sacrifices by everybody. No group can claim an exempt status in this fight. The threat of aggression cannot be met without at least a temporary decline in our standard of living and without the acceptance of controls over many phases of our economic life.

While the frustrating uncertainties which until recently shrouded the defense effort, should soon disappear, knotty problems of implementation remain and they will tax the ingenuity, judgment and self-sacrifice of all of us. But they can be solved, for the nation has now a defense goal to

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

which it can subscribe wholeheartedly. With proper action and cooperation, the ground will really be cleared for the building of an adequate defense by a durable and resilient economy.

In the formal declaration of a national emergency, this country has made a beginning, has taken the first step on the hard road that alone can lead to security. It is to be hoped that all free nations will follow us on that road. For after all, this is more than a national emergency. It is a crisis of freedom which affects the entire world.

CHARLES E. WILSON . . . In selecting Charles E. Wilson as top man in the newly created Office of Defense Mobilization, President Truman could have made no better choice. As an industrialist with more than fifty years of experience, Mr. Wilson knows better than most the problems of production which are multiplied in times of national stress. Having been president of General Electric Company until his recent appointment, he has the full confidence of industrial leaders, built up over many years of contact. He not only knows the job of production but he speaks the language of the producer, be he the man at the top or the fellow at the end of the production lines.

And finally, having been in full authority over production in World War II while executive vice chairman of the War Production Board, Mr. Wilson knows what it takes to turn out billions of dollars worth of planes, tanks, ships, etc. His record during these war years speaks for itself. We know he will again do a first class job. The nation's hopes and good wishes will be with him and for him as he takes up his tremendous task.

It is good to know that Mr. Wilson goes to Washington on his own terms, and will report directly to the President. That makes him the undisputed No. 2 man in the war effort. It should assure not only that the latter will be guided by a firm and unwavering hand, but that there will be a sound balance between military and civilian requirements.

ACTION ON PRICES . . . When considering the Administration's "voluntary-or-else" price rollback and freeze announced last week, two reactions are almost spontaneous. One is: Why so late; why wasn't action taken before serious damage could be done? The other is a grave questioning whether that sort of thing will really work—even as a stop-gap measure, particularly as long as wages remain unpegged.

Both these reactions are natural. Action in the price and in the wage fields has long been overdue. Moreover, we know from experience that voluntary restraints seldom work, and particularly so in the case of control action which stands in immediate need of further clarification. Thus less than 24 hours following publication of the price statement, it was admitted that the newly developed company earnings standard could not be applied to so-called growth companies, and would be unfair to that group of industries and companies whose business during the base years 1946 through 1949 was unduly depressed. As a result there is a great deal of confusion among businessmen and they are, moreover, in no rush to comply with the new directive. Meanwhile, ESA is preparing to modify the price freeze even before it has actually become effective.

All of which points to haste. Apparently the Administration felt that it did not have another day's grace before issuing the ESA statement. True, pressure in favor of price control has been strong and mounting—and rightfully so. It should have come long ago; there has been ample time to prepare for it, and set up an adequate control organization. The sudden and ill-considered action strongly suggests other motives—such as the desire to "get off the hook" with respect to price action taken against the automobile industry.

The latter case raises the question: When is price lifting good, and when is it bad? For on virtually the same day when the auto companies boosted new car prices, the RFC, a Government agency, raised the price for synthetic rubber six cents a pound. The auto companies were promptly requested to rescind their boost but nothing is said about RFC's action. Nor about the recent enormous jump in egg prices, made chiefly possible by the Government price-supporting policies.

We doubt that even Washington believes that the latest type of price action will prove sufficiently effective to avoid mandatory price ceilings. As a face-saving move, in respect to the auto industry controversy, it is not convincing. Apart from that, compliance will be next to impossible for the smaller businesses whose cost-accounting systems are not kept on a current basis.

We still believe that *mandatory price and wage controls* are our best bet, and the sooner the better. We may dislike them instinctively, but we must recognize them as necessary in present circumstances. We cannot expect to fight inflation with half-measures.

ON HER OWN, BUT NOT QUITE . . . It has been announced that Britain henceforth will cease to receive Marshall Plan aid. One reason given was her great strides toward economic recovery. The other was the fact that Britain will now receive dollars for military aid anyway.

It is no accident that Britain should be the first of the Marshall Plan countries to agree to suspension of economic aid. She has made austerity a national symbol, met every new pressure on her resources by taking up another notch in an already tightened belt, fought inflation with consistency, husbanded scarce resources and developed new ones. That stern program has enabled her to put American help to such good use that she is now able and ready to stand on her own economic feet. Both countries may well be gratified that the specific objectives of the Marshall Plan have been realized a full eighteen months ahead of schedule.

But this would not have been possible, despite British austerity, had it not been for the repercussions arising from our own defense program which in recent months greatly aided Britain in building up her dollar and gold reserves—which in fact swept the entire economy of the free world along. In view of that, and because of the heavy drain on our own economy entailed by our stepped-up arms effort, suspension of aid to Britain was a timely and logical move.

Since it does not affect our commitments for military aid under the terms of the North Atlantic Treaty arrangements, we are not wholly free from burden. In the future (*Please turn to page* 353)

As I See It!

BY ROBERT GUISE

NO ONE CAN SIT THIS OUT

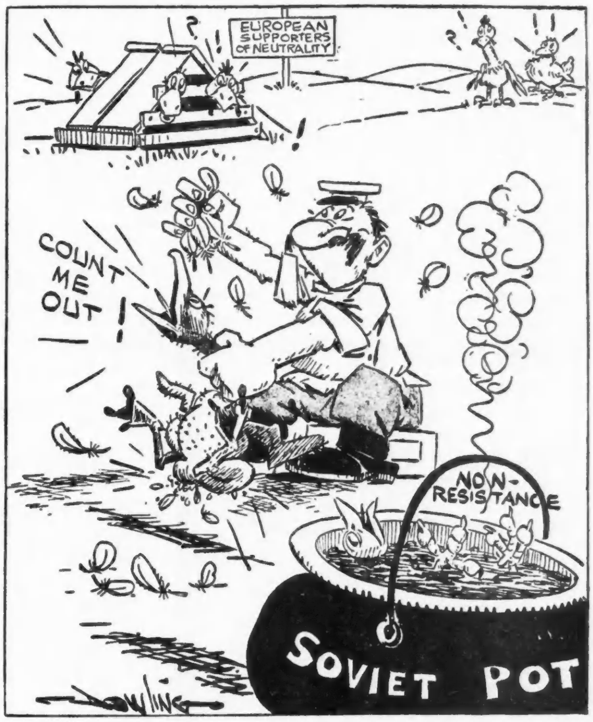
Secretary of State Acheson has rushed to Brussels to beef up Atlantic defense and returned with outward indications of some success—just how much remains to be seen. One can always hope the best, though in the light of the past melancholy sequence of negotiation, compromise and half-measures, it is difficult to be optimistic.

Still the apparent outcome of the Brussels talks appears to signify the reluctant admission by still free people that they cannot dare take the risk of standing alone against the communist tide that threatens their existence, some progress towards realization that if Europe wants to live, she must defend herself. To make this really meaningful does however require a thorough reorientation of Western European attitudes which to-date at least has conspicuously lacked the sense of urgency about the world situation so desperately needed at this time.

Up till now, theirs has been the belief that their quarrels can be leisurely negotiated regardless of what happens in the Far East; that the Russians are not ready to move in Europe; that there is plenty of time—and that appeasement might still bear fruit. Above all, there persists the fallacious idea that one can do business with Stalin—that a "deal" would be preferable to a showdown. And that if a showdown is inevitable, it might be a good thing to try and stay on the sidelines.

This attitude, this refusal to realize that no one can "sit it out" if and when a showdown comes, has led to serious delays in organizing Atlantic defense, delays that might yet prove tragic. It should be thoroughly understood by now that the Kremlin is no longer in a mood for compromise, that any "deal" would be temporary, that the communist hierarchy plays for the biggest stake—control of Asia and Europe—, and has the power to play the game accordingly. They may win it, if European disunity persists.

"SECOND THOUGHTS ON THE ADVANTAGES OF REMAINING NEUTRAL"



Dowling in The N. Y. Herald Tribune

To think, in the circumstances, that Western Europe could remain neutral and independent, that it could preserve its freedom in a Soviet-dominated Europe, is ludicrous. While Stalin, to facilitate his aggressive policies, might welcome a neutralized Europe as he intensifies his struggle with the United States, such neutrality would not long endure. It would merely invite the Soviets to move in whenever they please, and gobble up these hapless countries piecemeal.

So long as thoughts of neutrality and appeasement persist in the minds of European Governments, so long as the will for defense is absent or wavering, it is plain that the primary responsibility to defend the cause of freedom in the world rests squarely and exclusively on us and we should shape our own policies accordingly. It is not reassuring to know that some of our allies will fight only if they see "chances of success." Nor do we like to be prodded in the direction of appeasement at a time when our troops are locked in deadly struggle in Korea. And being realists, we are less than enthusiastic about being urged to try our luck at another "Big Four" meeting which "may result in agreements that may obviate the necessity of European rearming." How, one must ask, can such hopes be entertained in the light of past experience and the fact that the Russians today are leading from strength?

Herbert Hoover in his appraisal of the world situation has summed up matters concisely and realistically. He has voiced the thought, increasingly shared by many, that Europe cannot expect further assistance from us unless she shows a willingness to help herself. Despite three years of generous aid, he pointed out, continental Europe has not developed the unity of purpose and the willpower necessary for her own defense. The minds of their leaders are confused, and the (*Please turn to page* 353)

Market Now Appraising Individual Issues

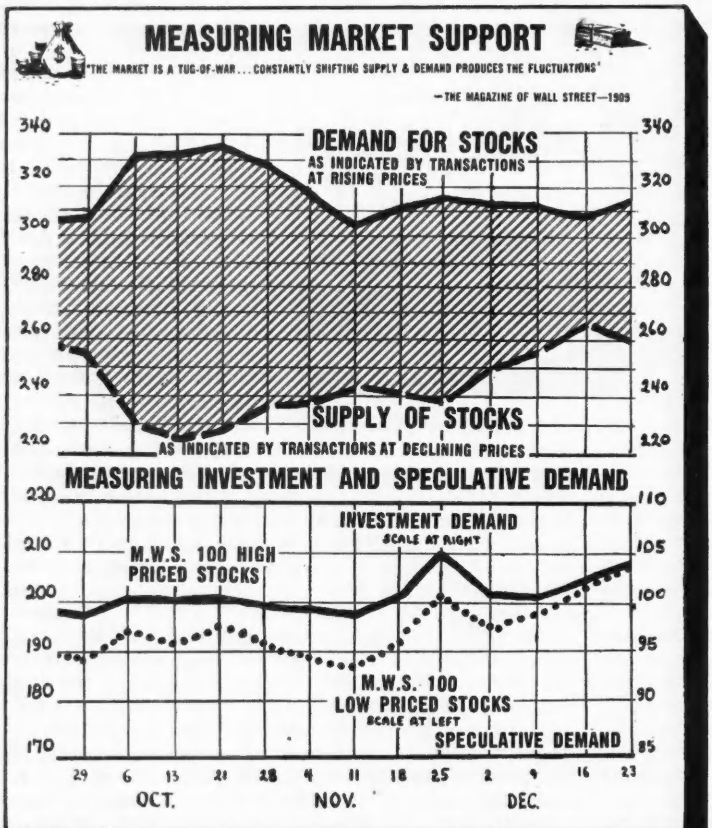
An emotional buying rush touched off by the proclamation of a national emergency has met with resistance. Aside from rails and other "war stocks", the market remains within the September-December trading range. Uncertainty on some counts has increased. This is no time to expand over-all stock holdings. Continue to maintain reserves previously advised.

By A. T. MILLER

The President's proclamation of a national emergency and his general forecast of a radical expansion in arms production apparently made some people more inflation-minded than heretofore; and scared, or induced, others into buying common stocks for the first time in their lives. Brokers reported a sudden influx of buying orders from all sections of the nation. In one session on the New York Stock Exchange, trading volume exceeded 4,000,000 shares, the highest level reached, in a period of rising prices, in a very long time.

Share turnover was larger than this in one earlier instance in 1950, but that was on the downside. It was on the selling rush in late June, immediately after the President's announcement of the ill-fated United Nations—American, for all practical purposes—intervention in Korea. Since that emotional selling was done at a market level rather far under that now prevailing, it need hardly be observed that it proved in due time to have been unwise. The same may well be so—and we think it probably is—of the recent buying rush.

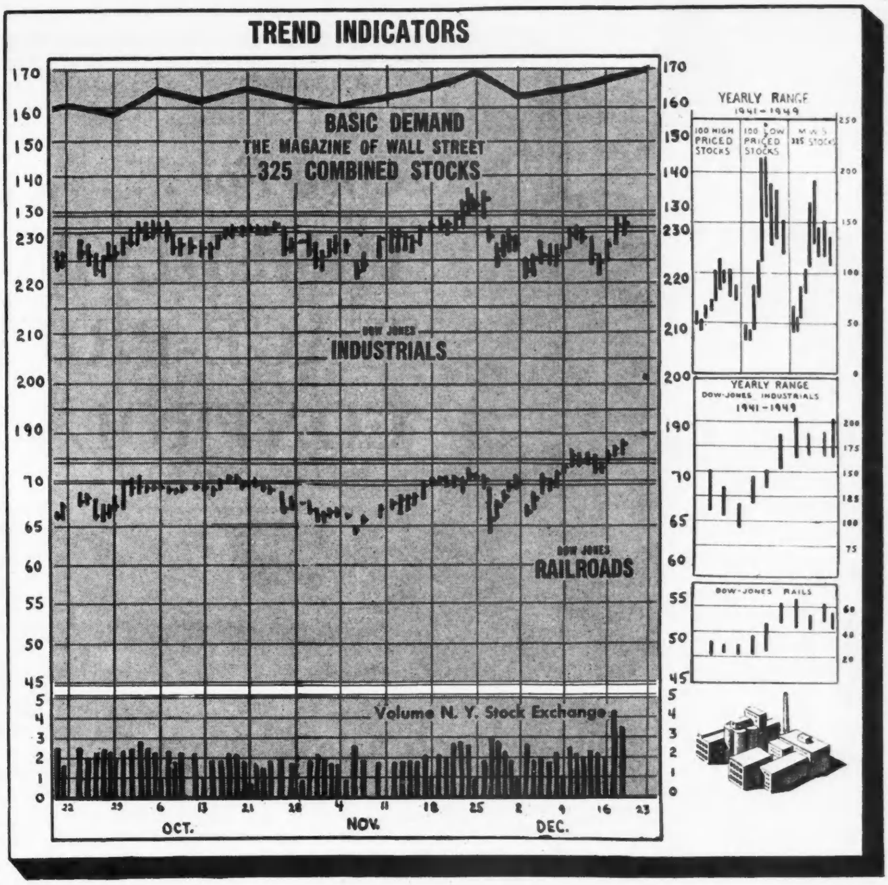
The threat of an arms-program-inflation has been with us for a long time, and especially during recent months of increasing crisis in our general foreign policy. It has been discounted in very large degree by stocks of the types popularly favored as 'inflation hedges" or otherwise as apparent beneficiaries in an armament or war economy. The proclamation of a national emergency did little more than formally recognize and officially emphasize an existing state of affairs. It revealed nothing of importance that any reasonably intelligent and reasonably well-informed person had not previously known.



Quality Of Buying Not Too Good

It is therefore safe to say that the buying in this belated stampede was generally more ill-informed, more speculative and less selective than that during the bulk of the July-November upswing in stock prices. Carrying this thought further, the sellers, mostly at a profit, on this move—there has to be a share sold for every share bought—can be assumed to be smarter in their timing than the buyers. There was no lack of them; for, although rails and "war stocks" generally pushed ahead moderately to new 1950 highs, the bulk of the market merely milled around. Up to this writing the Dow-Jones industrial average has failed, by several points, to equal its 1950 high of last November 24; and the utility average remains close to its recent reaction low, although it is currently firming up.

In short, while there has been a heavy concentration of buying with indecisive results for the general list, there has been an equally heavy concentration of distribution. In the light of prevailing grave uncertainties, especially those centering in foreign events, the best that we are inclined to allow for is a trading



range differing not greatly from that maintained by the industrial average ever since late last September within the limits to date of 235.47 and 222.33. The worst is a renewed sell-off of indeterminate, but not major, proportions. The December low could well be broken by a goodly margin in the event of Communist moves which make the global war threat acute. As stated a fortnight ago, we doubt that even war would break the low (197.46) of last July by much, if any.

And the December low might well be broken in at least moderate degree on a zig-zag intermediate downswing in average stock prices as investors are forced to pay more attention to some of the *deflationary* medium-term implications of an armament economy. There *are* some, you know. To begin with, take taxes. It is widely assumed that the boost in the combined corporate levy now working its way through Congress—and it is not too bad—is "it" for the duration; but that is not necessarily so. There is already considerable talk at Washington about a possible further "tightening" of corporate taxes in the general 1951 tax revision. Surely it is open to question whether a corporate boost as satisfactory to the stock market as the one now pending, will prove to be a sufficient "political quid pro quo" to balance the sharply higher personal income tax rates, excise taxes, etc., that are coming.

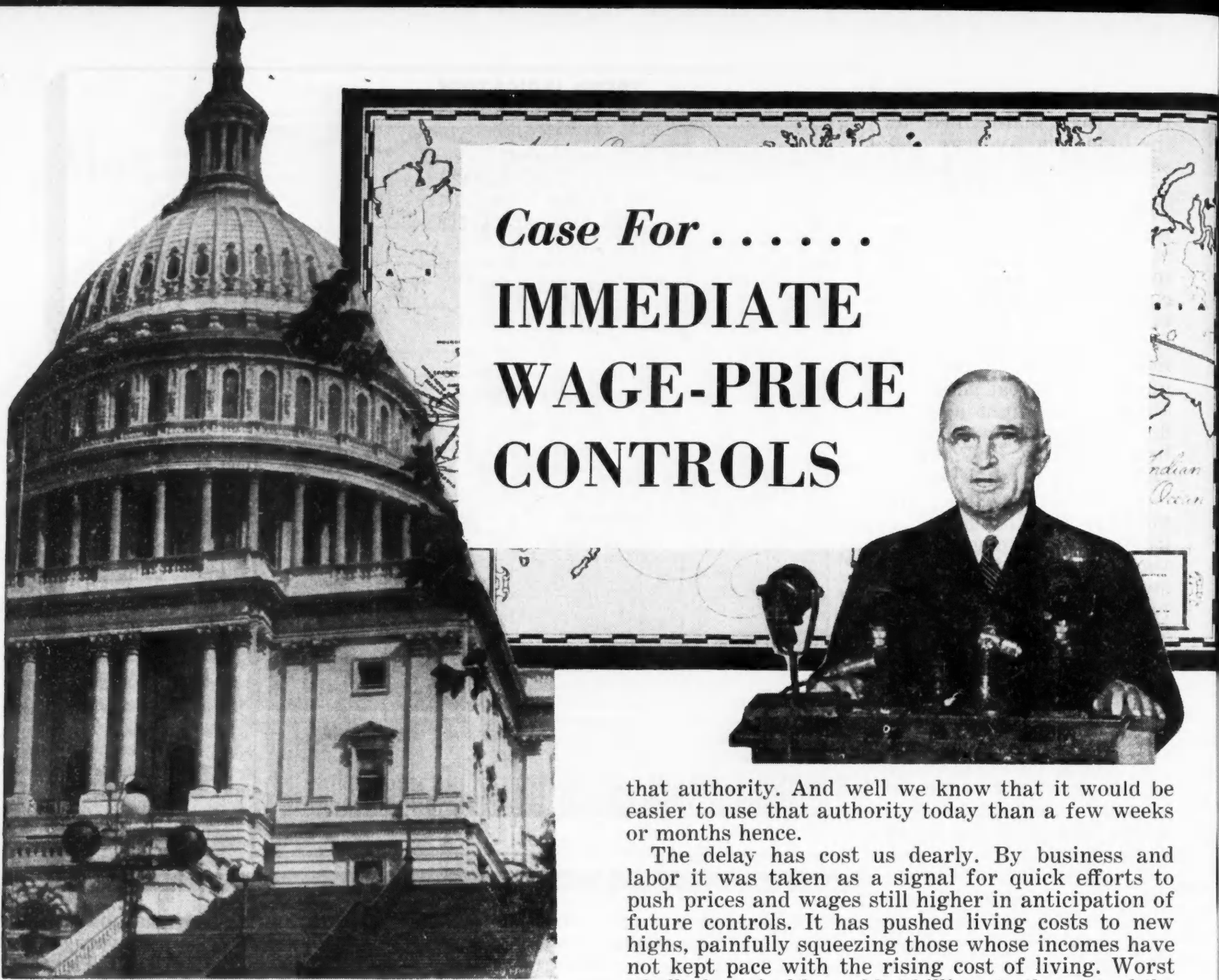
The Standard For Profits

Next, take the matter of price-wage control. This has been immediately twisted by the Administration into profit control. It has imposed a so-called "voluntary" freeze of all prices at December 1 levels. It is voluntary only in the sense that the enforcement machinery has not yet been set up. It has the force of law behind it. Prices can be officially "rolled back" whenever the machinery is functioning, if they are not "voluntarily" rolled back meanwhile. The law permits a freeze of prices but requires, where that is done, only a "stabilization" of wages. The two are not the same thing, since the latter word can be stretched. For instance, General Motors—like Ford—has been ordered to rescind a moderate price increase which is thought was justified by higher-cost materials and a previous large wage boost only a short time ago. But the Stabilization Agency has had no word to say about its wage rates, although the company is bound by contract to raise wages materially in each of the next several years—on the assumption, now clearly erroneous, of increasing productivity—and it is additionally bound to grant cost-of-living increases.

In the formula for determining the reasonableness of prices, the standard set forth is the average earnings, before taxes, of the period 1946-1949. This is tougher than the formula of the pending EPT bill, which at least lets companies take the best three of those four years in calculating exemptions on an average-earnings basis. On that standard for price control—combined with higher taxes—the present profits of many corporations can be squeezed plenty, especially over an extended period when "stabilized" wages creep up in reflection of "adjustments for inequities", cost-of-living adjustments, premium over-time rates, upgrading of workers, "fringe" concessions to unions, etc.

Next, the arms program will be more apparent than real for at least several months to come. It is largely "on paper" now. The appropriations by Congress and the elaborate military planning have no practical meaning for industry until the orders are placed. In the aggregate these do not amount to a great deal yet. If you looked only at the Government's budget expenditures, shown by the daily Treasury statements, you would not know that we have a defense crisis. For the first half of December the total was only a little over 3% more than in the same period a year ago; and for the fiscal-year period from July 1 to December 15 the total was $1,862,000,000 less than in the like period of 1949. That is how much Government action on defense, since approximately the start of the Korean war, has lagged behind its talk about defense.

Meanwhile, shortages of key materials caused by Government stock-piling, premature restrictions, credit curbs, one-sided (*Please turn to page* 353)



Case For . . . . . .
IMMEDIATE WAGE-PRICE CONTROLS

By E. A. KRAUSS

President Truman has told the nation about the grim facts of life that confront it and among other stringent measures called for stricter economic controls to further the mobilization effort and check the inflationary spiral.

He painted a broad picture of what the country's immediate task will be but this picture also indicated that for the time being at least, economic mobilization will stop short of sweeping and mandatory wage and price controls, with no wage controls at all for the time being, and only voluntary price controls, the efficacy of which is at least doubtful in today's circumstances.

From the standpoint of ultimate success in the fight against inflation, this hesitation, or delay, in acting on the price-wage front is not reassuring. Whether the present is the moment to apply all the brakes is no longer a matter of debate. Action is overdue. Delay in the past has already done great damage. Delay in the future will do worse.

Need one remind that it is more than three months ago since Congress voted the Administration authority to put ceilings on any or all prices and simultaneous pegs on wages? The emergency which impelled such action has meanwhile become far more serious, and the difficulty of using that authority also has increased. Three months have gone by and we are still lacking the machinery for implementing that authority. And well we know that it would be easier to use that authority today than a few weeks or months hence.

The delay has cost us dearly. By business and labor it was taken as a signal for quick efforts to push prices and wages still higher in anticipation of future controls. It has pushed living costs to new highs, painfully squeezing those whose incomes have not kept pace with the rising cost of living. Worst of all, the spiral has added billions to the cost of the defense program, so many in fact that the latest tax increase voted by Congress has already been cancelled out—gone down the inflationary drain.

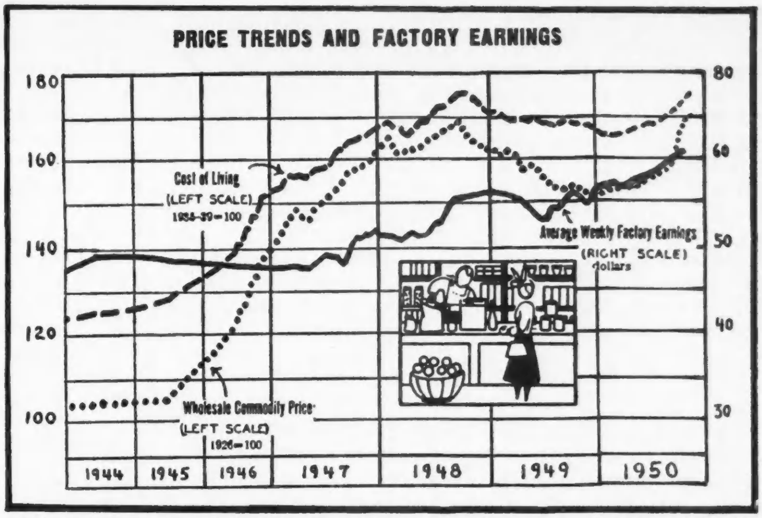
Yet there is hesitancy in clamping down on prices and wages except on a voluntary basis. This at best can mean only partial success, if that much, in the fight against inflation. We are not off the inflation merry-go-round by any means. The spiral threatens to go another full turn unless we act promptly and decisively.

The steel industry has just raised wages an average of 16 cents an hour and prices on its products about $5.50 a ton. That means a new upward whirl on a wide front. Unions in other industries are preparing to cite the steel wage boost as justification for new demands of their own. Already there is strong indication that the 16 cent steel industry hike will become the final fifth round figure for many more industries. And a sixth round—yes, a sixth round—is looming ominously on the 1951 horizon. John L. Lewis, it is understood, is deep in planning for surprise action next spring. If he succeeds, others cannot be stopped.

The auto workers are adding to the pressure with demands for new pay rises under cost-of-living clauses. The railroad workers are clamoring for settlement of pending wage demands. These actions and attitudes explain of course why wage-price lids are so slow in coming. They certainly complicate the problem of wage stabilization and they hardly jus-

tify lopsided action on the price front, leaving wages to the future.

Yet Walter Reuther would have the Government do just that. He has urged immediate lids on prices, but thinks wage curbs can come later—after another round of wage boosts. With the same logic, while calling militantly for an all-out fight against inflation, he denounces Regulation W for throwing workers out of jobs. Self-interest evidently remains far stronger than the national interest — even in an emergency. It doesn't mean, however, that Government need be stymied. It can act, and act promptly, if it chooses to throw politics aside and consider the national interest first.



Conflicting Pressures

Admittedly, the Administration's position is not an easy one. It is under heavy pressure for immediate sweeping price-wage controls which we all know are only a matter of time even if action is delayed. Others want to speed the arms effort to the utmost and feel controls can wait a while, that in fact they are not imperative until the arms effort is far more advanced. Pressure in favor of price controls has been strong enough to bring the latest ESA request for a voluntary price freeze by business. Pressure against immediate wage controls, conversely, was sufficient to leave the wage front out of the present control pattern.

Viewed from every angle, there is no disputing that the best and safest time to stop the spiral is NOW, without further delay. There has been too much delay already and we have paid plenty for it. Unless there is action now, the spiral will continue to wind its nefarious way for another full turn. We all shall be the losers then, all except the speculators, the black and the grey marketeers—the malodorous gentry that usually prospers during inflation at the expense of others.

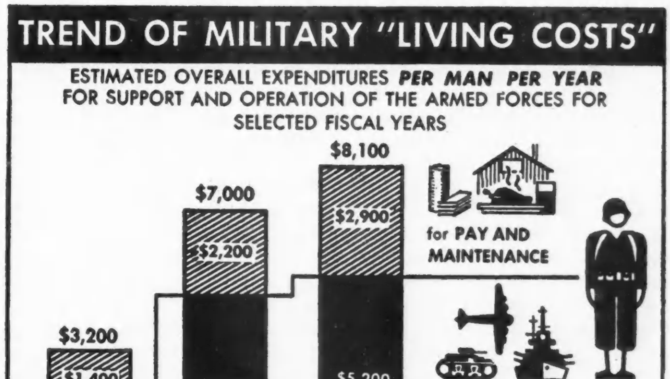
Action on the wage-price front is doubly urgent because the Administration apparently has abandoned all hope that inflation can be halted by such indirect curbs as credit restrictions. It has virtually admitted defeat in the anti-inflation war by suggesting that the pay-as-you-go tax policy will become a casualty to events in Korea. The fact of course is that there has been no real war against inflation, no real organization of anti-inflationary forces.

What have we done so far in our "fluid" defense against inflation? We have cracked down on consumer and mortgage credit, have raised taxes moderately, have permitted a slight hardening of interest rates, have exhorted the people to spend less and save more, and the banks to go easy on lending.

As far as the exhortations for voluntary restraints are concerned, they haven't worked and that was to be expected. The banks are now invited by the Federal Reserve Board to joint "exploration" of the possibilities to restrict inflationary lending. The FRB is still reluctant to go a step further—away from voluntary towards more compelling action—and increase reserve requirements. That evidently is a last resort but perhaps the step should have been taken long ago. Bank lending has soared to new heights with an increase of almost $6 billion in a year's time and not all of this has been carefully screened for inflationary potentials. It has more than cancelled out whatever modest success accompanied instalment and mortgage restrictions, from the standpoint of check-reining the credit boom.

All these steps, as we have found out to our detriment, have not been enough, nor will they be enough in the future with large-scale deficit financing just ahead. Pay-as-you-go might have had a real chance if expenditures hadn't jumped as sharply as they did. A $75 billion budget is difficult to cover by taxes, or so the argument goes. It could be done, though, if the grim determination to do so existed. But apparently it is held politically not feasible despite the fact that it would be better to bear the cost now, through taxes, than later through the ravages of inflation. The savers should know that by now; the spenders don't care.

Yet we might as well face the facts. Even price-wage control now, vital as it is as an immediate weapon against further price rises, won't prevent



further dollar depreciation unless it is accompanied by a realistic fiscal policy. Price-wage freezes will stop the spiral now (except in black markets) but inflation will promptly rear its head once controls come off later. That should be fresh in our minds, for we have experienced it as late as 1945. Throughout the last war, prices were fairly well stabilized; after the demise of OPA, they soared. We all remember it, and there is not the faintest reason to assume that it will not be the same next time.

What then should we do? Obviously we cannot tax the economy and the people to the tune of $75 billion annually without killing incentive and production.

There is a Way Out

It won't be necessary and here is why. The budget deficit in fiscal 1951 will be small, if any, and presents no problem. In fiscal 1952, on basis of currently foreseen expenditures and revenues under the present tax structure, a deficit of some $15 billion is indicated. On a cash basis, which is the real yardstick, the indicated deficit is around $12 billion. There are signs that Congress will try to raise taxes to cut the deficit in half and borrow the remainder. That would be highly inflationary, particularly if the procedure were repeated over a number of years as it probably would have to.

The $6 billion that would have to be borrowed could be taken care of (1) by raising taxes some more, and (2) by severely pruning the Government's non-defense outlays. The latter could almost do the job alone.

The simple fact is that it is not a question of whether we will pay for our stepped up defense outlays but HOW we will pay for them. Pay we must, one way or another. If we do not pay as we go and make the necessary personal sacrifices, we will have to pay in the worst way—by further inflation which no one can escape. Not only would the living standards of large groups of our population be disproportionately depressed but production itself would suffer. Our savings would deteriorate. Whatever we have set aside against our old age, or for the education of our children, will fade in value. So will social security, annuities and many other investments like bonds.

Cutting Back Non-Essentials in Government

There has been a lot of talk about the need for stiffer taxes, and the need is doubtless a pressing one. In contrast, there has been little more than lip service given to the job of cutting back non-essentials in Government. Yet that need is urgent too. While our revised budget foresees $48 billion for defense, close to $25 billion are scheduled for non-defense, of which $5 billion could easily be shaved as strictly peace-time luxuries that we should forego. Congress should insist on cutting out all waste and extravagance, and the taxpayers who ultimately pay the bill, should make Congress aware that such insistence is politically wise!

While a sound tax policy is urgently called for, unfortunately politics affect that too. It is thought politically "impractical" to impose too heavy taxes—except on corporations—, hence the temptation to abandon the thought that we can arm as we go. It is a frightening trend, for it bears the seed of more and more inflation. It is hypocritical because it implies that the people are unwilling to do their part whereas all they want is determined leadership, a sound tax policy free from politics, and a stern front against extravagance in Government spending.

At present, Congress is debating excess profits taxes, yet the case in favor of EPT is not nearly as clear, nor as clean, as the people generally are given to understand. They are given the impression that by taxing the big pot-bellied corporations, they themselves will be spared heavier imposts. But this ignores the fact that the dollars added to the corporate tax load must come eventually from the consumer, in one way or another.

This is not so much an argument against taxing corporations further, particularly as long as individuals will have to carry a heavier burden too. It is merely throwing the proper light on it. It would be less harmful if the same amount of money sought via EPT would be raised from corporations by a straight increase in the corporate tax rate. It would avoid inequities and protect growing businesses.

Let's not forget that *all* of us must pay for the cost of defense; there is no escape from that. And it would be far better and sounder to pay as we go than through open or repressed inflation—open inflation, if we let things go and fail to stop the spiral now; repressed inflation, if we clamp down on wages and prices but fail to adopt sound fiscal and tax policies.

Real and effective war against inflation requires every effort to stabilize prices and wages *as well as* every effort to pay our way. To keep corporate and individual income taxes at bearable levels, we must supplement them with a tax on retail purchases even though such a measure will be politically unpopular. But if business as usual is out, why not politics as usual? Why not do the things which are best for the country regardless of politics?

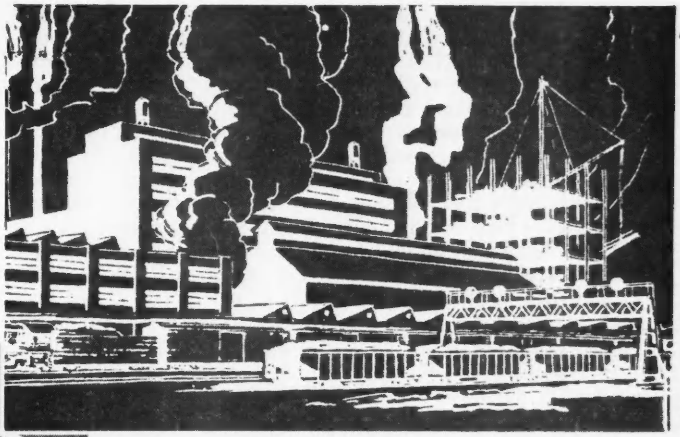
Why Not a Retail Tax?

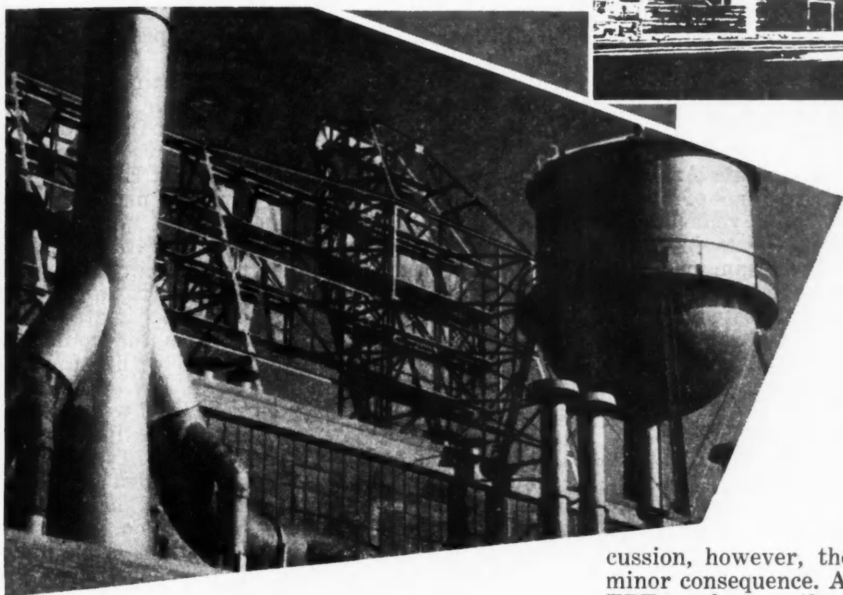
A retail tax, except on food, would not only take care of revenue needs and make pay-as-you-go a practical proposition but it would have the added advantage of discouraging spending and encouraging saving. That is important in itself. It would help stabilize prices in that it would curb spending on goods in scarce supply. Rather than taxing people indiscriminately at high rates, it would give them at least a partial option between spending and saving. Briefly, such a tax would raise more needed revenues, distribute the burden more equitably, put a brake on excessive demand and encourage both more production and saving.

If we really want to combat inflation, the time to equivocate is past. Only prompt and forthright action will do. We may be faced for many years with the prospect of spending huge amounts for arms and protection, and the ultimate cost cannot even be guessed. Either we make up our minds and pay for it out of current income, hard as it will be, or face the prospect of a slowly rotting currency and steady erosion of the foundations of our personal and national security and economy. In that event, what good will be successful containment or defeat of communism?

Even our very defense effort will be jeopardized if we fail to tackle inflation realistically. Perhaps not many realize that rising prices since June 25 have eaten up enough of (*Please turn to page* 351)

What ...... War Profits Tax Will Do To ...... Corporate Earnings





PART III – By WARD GATES

As the weeks go by, the prospect that some 75,000 corporations in 1951 will have to pay excess profits taxes becomes increasingly clear. Somewhat less certain is the chance that EPT may be retroactive to cover a portion of 1950. As we go to press, the Senate-House Conference Committee will be trying to reach a compromise on their different versions of the measure, in a last minute effort to attain final action before the "lame duck" congress departs for home, but chances seem even that the ultimate shaping of the bill may be left to the new Congress.

In any event, the impact of EPT on corporate earnings and dividends henceforth will vary so incisively in individual cases, that rough estimates command considerable attention among investors. Now that cut-backs in civilian production will cloud the earnings potentials of some concerns, while large scale military orders may improve the outlook for others, the element of excess profits taxes is bound to count heavily in the dividend equation. Search will be redoubled to distingush between the equities of companies particularly vulnerable to EPT and those with a relatively sheltered base or with earnings likely to cover current dividends by such a wide margin that the impost could be readily absorbed.

While exact details of the new tax law are as yet indeterminable, it is pretty safe to assume that they will not vary radically from the pattern established in the Bill passed by the House. Due to pressure from the Senate, to be sure, some modifications, such as a reduction in total income and excess profits taxes payable by a concern from the proposed 67% of taxable earnings, or a revision of retroactive payments, may result. Additionally, the EPT rate may be lifted slightly above 75% and/or steps taken to increase regular surtaxes somewhat.

For the purposes of our discussion, however, the foregoing details will be of minor consequence. At best, when the final terms of EPT are known, the picture emeging will be highly complicated and, except in a general way, render forecasting of 1951 corporate net earnings a very difficult if not impossible task. What taxable earnings may be next year can only involve guesswork, especially since experience in the last war taught many managements how to struggle with EPT problems for better or for worse, through allowances for accelerated amortization, increased operating costs and what not.

Despite the obscurity of taxable income in 1951, however, a study of the approximate impact of EPT on corporate earnings in 1950, had it been fully effective, can be of logical interest, Assuming average pretax earnings for the best three years in the 1946-49 period as a base for exemption at an 85% rate, and granting a 75% as the EPT rate, this application to 1950 operating earnings can be highly informative. Without any attempt to project these showings into 1951, certain general clues are provided that should be helpful in current investment appraisals. For this reason, we have extended a study along these lines undertaken in the two preceding issues of the Magazine.

The Case of a Growth Company

We have included Admiral Corporation on our latest statistical study in order to illustrate how much more sharply EPT would pare earnings of this rapidly growing concern than even a 55% straight tax would do. Estimated net earnings of

$9.20 per share for 1950 would have declined only moderately to $7.15 with a 55% straight tax, but under a 75% EPT would plummet to $4.95 a share.

In common with other leading television manufacturers whose taxable earnings have more than doubled in 1950 to a point far above their 1946-49 base years, Admiral would be heavily and unjustly penalized for its spectacular progress in a virtually new industry. While ultra-conservative dividend policies that have held 1950 total payments to $1 per share, eliminate any doubt as to dividend stability, stockholders in Admiral could validly protest against such an unwarranted challenge to their deserved improvement. In the circumstances, however, it seems certain that the Senate-House Conference Committee will agree to provide a considerably higher exemption base to take care of special growth situations.

Armour & Company

In marked contrast, we find that while Armour & Company will likely report net earnings of about $3.40 per share in the current fiscal year ended October 31, compared with only 46 cents in fiscal 1949, this concern would be completely immune from excess profits taxes. This because average earnings even after taxes were high in several postwar years and thus indicated a high exemption base. In this situation, a 50% straight tax would have reduced net earnings by only 55 cents a share, and under a 55% impost by 90 cents.

Similarly, net earnings of Duplan Corporation for the year ended September 30, 1950 were reported as $2.30 per share at the 42% straight tax rate, representing the third annual decline from a peak of $6.08 in fiscal 1947. Because of this circumstance,

Projections of Potential Impacts of Various Tax Rates on Corporate Earnings

	Indicated 1950 Div.	1950 —Estimated Net Per Share— 42% Tax	50% Tax	55% Tax	75% Tax
Admiral Corp.	$1.00	$9.20	$7.95	$7.15	$4.95
American Metal Co.	2.00[4]	4.50	3.85	3.40	3.65
American Woolen	1.00	2.50	1.90	1.50	2.15[5]
Armour & Co.[3]	......	3.40	2.85	2.50	3.20[5]
Bigelow-Sanford Carpet	3.00	9.40	8.35	7.40	6.70
Canada Dry Ginger Ale[1]	.95	1.55	1.35	1.20	1.25
Continental Can[1]	2.00	4.15	3.50	3.10	3.25
Continental Steel	3.80	7.10	6.15	5.55	4.15
Crown Zellerbach[2]	2.20	8.20	6.85	6.00	5.50
Cutter Hammer	2.40	5.45	4.65	4.20	4.50
Duplan Corp.[1]	.70[4]	2.30	1.95	1.75	2.15[5]
Evans Products	.50	4.50	4.00	3.65	3.60
General Bronze	1.50[4]	6.70	5.80	5.05	4.20
General Cigar	......	1.05	.85	.65	.95[5]
Hazel-Atlas Glass	1.40	2.05	1.75	1.50	1.75
Interlake Iron	1.50	2.80	2.40	2.15	2.40
Kimberly-Clark Corp.[3]	1.85	6.70	5.70	4.85	4.40
National Gypsum	1.50	4.50	4.00	3.55	3.15
National Supply	2.00	4.60	3.90	3.40	4.35[5]
Rayonier Inc.	2.50	9.00	7.55	6.65	6.50
Ruberoid Co.	3.50[4]	10.40	9.10	8.30	8.70
Scott Paper	2.65[4]	4.40	3.75	3.35	2.75
Sharpe & Dohme	1.70	4.15	3.50	3.05	2.70

*—Based on estimated 1950 pre-tax earnings.
1—Year ended Sept. 30, 1950.
2—Year ended April 30, 1950.
3—Year ended Oct. 31, 1950.
4—Plus stock.
5—Full exemption, based on ordinary 45% tax.
6—Year ended Oct. 28, 1950.

Duplan would have had no excess profits tax liability this year. Had a maximum of 55% in straight taxes been imposed, the company would have earned $1.75 or comfortably in excess of 70 cents a share paid in cash dividends. This concern also distributed two small stock dividends in 1950.

Continental Can Company enjoys a relatively sheltered position as regards EPT, with the result that earnings would be pared less by EPT than with a straight 55% tax. Estimated earnings of $4.15 per share in 1950 would have shrunk to $3.25 with EPT in effect, compared with a 1947-49 average of close to $4. Annual dividends have gradually advanced to $2 per share in the current year from $1 in 1946, but their maintenance at the higher rate may prove a little difficult, that is if the earnings spread narrows as indicated.

During World War II, though, Continental Can's volume rose progressively in each year, and if this same pattern should emerge under the Defense Program, it is possible that through improved operating efficiency and a reasonably satisfactory EPT exemption base, the company's net earnings may be more stable than might be assumed.

Earnings of Continental Steel Corporation in 1950 will likly be almost double those of any previous prewar year, thus making this company quite vulnerable to excess profits taxes. It is estimated that after allowing for retroactive taxes the company may earn $1.10 per share compared with a former postwar high of $3.24 in 1948 and a low of $1.27 in 1949. The base for exemption from EPT will accordingly be relatively low, and under this impost net earnings might have been reduced to $4.15.

Since Continental Steel has no funded debt nor preferred stock and earnings for a good many years past have been quite stable, it has been no great surprise that record dividends of $3.80 per share have been paid this year. Considering the company's EPT position, though, it seems questionable whether such liberality might be continued. In lesser degree this might also apply if corporate income taxes were raised to 55%, in which case $5.55 would have been earned.

Cutler-Hammer, Inc.

Cutler Hammer, Inc. in the current year would have felt the impact of EPT rather lightly, because of relatively high taxable earnings in the 1947-49 period. Estimated earnings for 1950 under the tax law now effective are $5.45 per share, and would have declined to $4.50 had EPT been applicable. If a 55% income tax rate had been effective, earnings would have receded slightly more to $4.20 a share. Total dividends of $2.40 per share paid in the current year are thus hardly threatened by the impact of higher taxes, regardless of their character.

During 1950, Bigelow-Sanford Carpet Company has enjoyed its third successive year of high level earnings, although they will not match a peak established in 1947 when $11.93 per share was earned. Since taxable earnings were quite large in the 1947-49 years, the company might have earned as much as $6.70 per share in 1950 even after allowing for EPT. Compared with estimated earnings of $9.40 per share under the 42% income tax rate, it is true that a decline of $2.70 would seem very substantial, but in relation to dividends of $3 per share, the result would not have been at all discouraging. While relatively high earnings could cushion any decline

caused by increased taxation, some uncertainty exists as to how the leading carpet manufacturers may fare in a semi-military economy.

During World War II, heavy conversion costs and narrowed margins affected the operating income of Bigelow-Sanford quite adversely, and in the 1942-46 period, dividends were reduced to $2 per share from $4 in 1941. Presently, though, there is little to suggest any near term change in the current $3 annual dividend rate, especially as concerns EPT. High operating income, if continued, could comfortably absorb much higher tax levies.

National Gypsum Company

With a 75% excess profits tax rate in effect, National Gypsum Company apparently would not experience enough of a decline in net earnings to threaten the annual dividend rate of $1.50 per share. Under this impost, while net earnings would decline to $3.15 per share from an estimated $4.50 at tax rates now prevailing, dividends would still be covered slightly more than twice. Still more assurance would be given if straight income taxes of 55% were imposed in substitution for any EPT, as net earnings of $3.55 per share under such a straight tax rate would indicate.

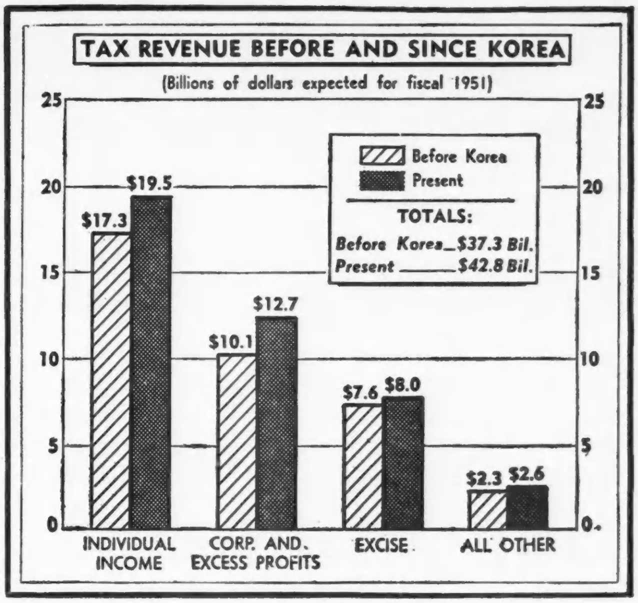
In National Supply Company we have another situation where a relatively high exemption base would have immunized earnings in 1950 from excess profits taxes. Even after allowing for the 45% income tax rate that becomes effective on January 1, 1951, the company would have earned $4.35 per share or only slightly less than estimated earnings of $4.60 a share in the current year.

While unusually high taxable income in 1947 tended to raise the average for the three best years that form the exemption base, it should be recognized that any current and prospective increase in National Supply's activities as a supplier of essential oil industry equipment may before long expose it to an impact from EPT. The company's operating income in 1951 should rise substantially but even so, the influence of excess profits taxes should be moderated by the satisfactory exemption base. The $2 annual dividend rate seems secure.

Ruberoid Company, a leading producer of building supplies, appears to enjoy a very favorable position as to EPT. In the 1947-49 period, volume and earnings of this concern were unusually high, hence although 1950 has been a very prosperous year also, EPT would have taken only a moderate toll. In other words, estimated earnings of $10.40 per share would have been pared by about $1.70 under EPT in 1950, although if a 55% income tax had been effective, a further decline of 40 cents a share would have occurred.

Payment of cash dividends totalling $3.50 per share in 1950 would have been entirely justified, had net earnings of $8.70 per share been attained after allowing for excess profits taxes. If a recession in building activities should reduce the earnings of Ruberoid, the impact of EPT might lessen quickly. During the last war when residential construction virtually halted, earnings of this concern continued very stable and at a higher average rate than in immediate prewar years.

To Interlake Iron Corporation there would be little or no choice between a straight income tax



of 50% or an excess profits tax of 75%, since in each case estimated earnings would be $2.40 per share compared with $2.80 under the prevailing 42% tax rate. The company would be slightly better off under EPT than with a 55% income tax rate that would reduce earnings to $2.15 per share. Aside from a favorable exemption base for EPT, this prominent producer of pig iron can count on substantial tax relief as a large miner of coal and iron ore.

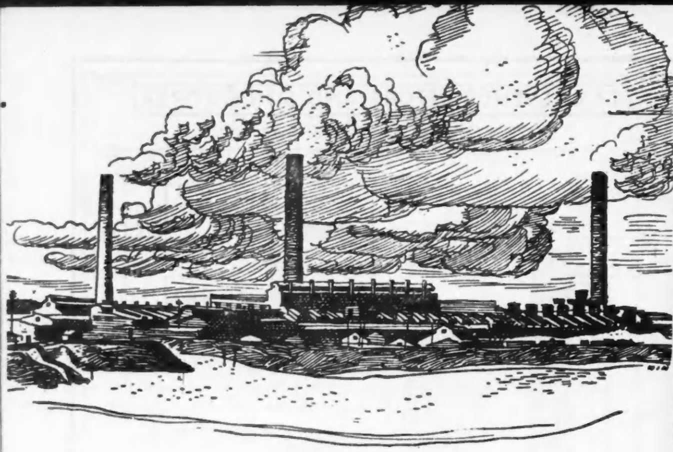
With capacity operations probable for a long time to come, the taxable earnings of Interlake Iron should rise, but excess profits taxes might be not too burdensome. The company has been paying conservative quarterly dividends of 25 cents a share, although no definite rate is observed. On December 18, 75 cents was paid in view of the promising outlook, making a total of $1.80 per share for 1950 or the highest rate since 1929.

Scott Paper Company's taxable earnings have mounted so substantially this year that quite a sizable excess profits tax bill would have had to be paid if the impost had been effective. While estimated earnings of $4.40 per share would have been shaved by 65 cents under a 50% income tax rate, and by $1.05 with the rate at 55%, EPT would extend the cut to $1.65, thus paring net to $2.75 per share. Considering total cash dividends of $2.65 a share paid in 1950, this would leave a slim 10 cents margin.

The dynamic progress of this concern in postwar has enabled it to earn more in each succeeding year and to advance dividends correspondingly, but in the process a relatively low exemption base for EPT has been established. With income orders continuing to outstrip production, the company's outlook for 1951 is bright, but somewhat more conservative dividends might be necessary unless, as is possible, some relief is provided for a situation of this kind.

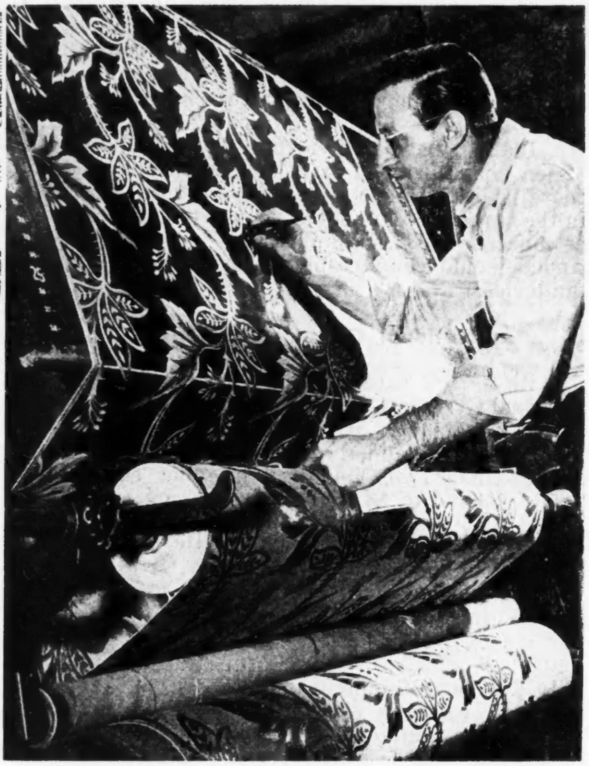
Rayonier, Inc.

Rayonier, Inc. may earn $9 per share in 1950, a highly satisfactory showing by normal standards, though slightly less than $9.09 earned in 1948. Since $7.30 was earned in 1947 and $4.75 in 1949, average taxable earnings for (*Please turn to page* 352)



The SOFT GOODS INDUSTRIES in 1951

By GEORGE W. MATHIS



Manufacturers and retailers of soft goods have little to complain these days as far as current and recent sales and earnings experience is concerned. True, there has been reaction from the general overbuying by consumers which occurred immediately after the Korean emergency arose, but business nevertheless remained good and so is the outlook for the coming year.

Not that 1951 will not bring problems; it certainly will. But there will also be compensations. The problems will center on questions of controls, prices and raw materials supply. As long as the latter is adequate, sales volume should be highly satisfactory. The expectation indeed is that as hard goods are getting scarcer and more difficult to obtain, a larger proportion of consumer income will be spent for soft goods and services. Together with rising incomes and peak employment, sales and earnings of companies wholly or predominantly in soft goods fields should show improvement.

Thus it is anticipated that output of soft goods in 1951 will be 6% to 8% larger than in 1950 with the price trend basically upwards even if some controls are imposed. The combination of rising raw material prices and higher labor costs means continued price increases for finished goods. Even should unit turnover rise only modestly, dollar volume should forge ahead more significantly.

These expectations translate into fairly impressive figures if one considers that in October, for instance, sales of non-durable goods manufacturers came to $11.6 billion compared with the August top of $12.7 billion. August was the month when business was enormously spurred by scare buying, subsequently subsiding. Even at the October rate, it means that soft goods have been bought at an annual rate of some $140 billion and while some of it has gone into inventories, this holds no particular risk in a period of rising prices and expanding sales. Rather, any inventory build-up at this stage could prove salutary not only from the standpoint of possible inventory profits, but because it will help sustain sales in the face of a tightening supply.

The textile industry, principal producer of consumer soft goods, is currently operating at or close to capacity in all its branches and mill production should remain high in coming months, what with order backlogs extending well into the second quarter. With prices firm, the outlook for sales and profits is promising but there is a fly in the ointment: Full-scale mobilization, if it comes, could mean a much tighter clamp on cotton and wool for civilian use.

Cotton and Wool in Short Supply

Today, the cotton supply is short; only about 16.68 million bales are available compared with 24.3 million bales at the start of World War II. The situation is not necessarily critical, particularly in view of anticipation of a big cotton crop next summer, but just before it is picked, stocks could be down sufficiently to call for requisitioning for military use of part of the cotton that would otherwise go into civilian goods. Mills then still would operate at a high level, but on narrower margins on the military portion of output.

Wool, too, is short, and also high in price, but supply is no particular worry as long as we can draw on the big Australian clips. Still the Government prudently intends to create an emergency stockpile of 100 million pounds.

While potential cotton and wool shortages may occur, one should not ignore certain ameliorating factors. One is that synthetic fibers would tend to ease any pinch. Another, that it would be further

cushioned by the tremendous quantities of finished textile goods now on the market. Many textile men were jittery about the huge cloth supply before the intensification of the war threat, fearing it might lead to sharp price drops. They feel much better about it now, are even glad of it.

Not to be forgotten is that rayon production capacity today is almost triple that of 1941. All of which means that regardless of possible supply difficulties, more especially in cotton goods, their impact will hardly be immediate, nor too severe if and when it should be finally felt.

Factors Affecting Profit Margins

Meanwhile the textile industry should continue to do well as large consumer demand plus expanding military requirements will sustain operations at capacity. Greater plant efficiency and higher prices should help offset higher costs. Current profits are substantial but these could be reduced once the proportion of military work becomes greater, quite apart from the impact of higher taxes.

Apparel lines generally should benefit from increasing consumer emphasis on soft goods, and that goes not alone for clothing but for shoes as well, particularly if the trend to higher prices continues. While to-date, these lines have represented a relatively quiet area amid the buying storm released by the Korean scare, signs of growing demand are clearly discernible. Barring an all-out war, there is little question that the country will be well supplied with basic needs. One problem may be to put reasonable restraints on excessive demand to avoid undue pressure on prices.

"Soft" goods of course include more than apparel, shoes, food, beverages, cosmetics, soap, tobacco, house furnishings, gasoline and oil to run the family car. Most of these things, before you take them home, must be wrapped up and this means paper and containers of every kind. They, too, are non-durables, and booming—with demand strong, supply tight and little easing seen in the near future. Record production, firm prices and high earnings despite higher taxes are indicated for this industry.

As far as food lines are concerned, demand should remain strong and prices firm; record consumer purchasing power could raise sales to an all-time high next year though net profits will be determined importantly by tax developments. Much the same is true of tobacco and liquor, consumption of which will likely be stimulated by the defense environment; and also of dairy products and meat since individuals tend to spend more for such food items in periods of high income.

As far as gasoline and oil is concerned, there is every indication that barring restrictions, civilian demand will continue well ahead of last year and military needs are also mounting. In short all along the soft goods front, demand prospects are favorable and except for cotton and wool, supply should be no problem. Even in the latter categories, no real tightness is expected before the end of 1951.

Ever since 1947, when more hard goods became available, the urge to spend for soft goods had dwindled until during the summer months of 1950 when scare buying lifted sales appreciably. Still even at the preceding laggard rate, soft goods buying had not been abnormally low. Whereas back in 1948, spending of this type took about 54% of the consumer dollar, it had dropped to somewhat below 52% in 1949 and is currently back to 53% and headed higher. That's still a sizeable percentage above the roughly 50% rate in 1940.

Greater buying emphasis on non-durable goods also portends better results for such retail outlets as department stores where soft goods normally constitute a major part of sales. Specialty stores and mail order houses should similarly benefit; in the latter case and that of certain department stores where durable consumer goods accounted for an increasing proportion of sales in recent years, more buying of soft goods could at least partially compensate for dwindling (*Please turn to page* 350)

Statistical Data on Selected Companies in the Non-Durable Goods Field

	1950	1950	1950	1949	1949	1949				
	Net Sales ($ million)	9 months Net Profit Margin	Net Per Share	Net Sales ($ million)	Net Profit Margin	Net Per Share	Div. 1950	Yield	Price	Price-Range 1950
American Viscose	$193.7	12.8%	$ 5.86	$194.6	10.4%	$ 4.66	$ 2.50	4.2%	62¼	64½-54½
American Woolen	105.5	2.0	1.40	132.1	1.6	1.18	1.00	2.2	46½	46½-21⅞
Best & Co.	16.5[1]	4.0	1.08[1]	36.3[7]	5.4	3.29[7]	2.00	6.8	29¼	31¼-25⅛
Burlington Mills	286.9[3]	9.7	6.86[3]	263.4	7.0	4.31	2.125	8.3	25⅝	26½-17¼
Cannon Mills	......	......	......	135.0	6.6	4.30	3.00	5.4	55	58 -43½
Celanese Corp.	169.0	19.5	5.57	171.2	12.0	3.19	2.55	6.0	43	44⅜-29⅝
Cluett Peabody	33.8[2]	6.2	2.52[2]	76.6	2.6	1.93	3.00	9.8	30⅝	31 -22
Endicott Johnson	55.6[4]	1.5	.90[4]	131.6	1.7	2.48	1.60	5.3	30¼	33⅝-28½
General Shoe	84.4[5]	4.6	5.04[5]	77.6	3.1	3.14	2.50	6.4	39	38¾-30⅛
Pacific Mills	89.9	6.8	6.76	98.8	3.8	4.16	2.50[8]	5.7	43¾	47½-28⅝
Pepperell Mfg.	66.6[6]	6.6	9.10[6]	65.3	8.4	11.30	5.00	7.7	65	67¾-53⅞

1—6 months ended July 31, 1950.
2—6 months ended June 30, 1950.
3—Year ended Sept. 30, 1950.
4—6 months ended June 3, 1950.
5—Year ended Oct. 31, 1950.
6—Year ended June 30, 1950.
7—Year ended January 31, 1950.
8—Plus 5% in stock.

BEHIND THE RAIL STRIKES

By E. K. T.

IMMINENCE of a national wage-price freeze was behind the strike of railroad switchmen that tied up freight, passenger, and parcel post movement through some of the major terminals, but the workers may have paid a high price for the attempt to put the squeeze on the government to force a wage settlement satisfactory to the employee group, in advance of the federal orders. One of the terminals picked for closing was Washington. Result was that congress was inconvenienced and the Administration was defied, for the work stoppage was a strike against the government, which has been operating the roads since last August. Union heads' claim of "wildcat strike" brought loud guffaws.

CLEMENT ATTLEE'S visit to the United States resulted in the greatest switch of modern times. The answer to the cynical "How much did he take back to London?" came in the announcement that instead of carrying away a new loan, the Prime Minister left Washington with an agreement that ECA aid to Great Britain could come to an end. While the fact wasn't widely advertised, for obvious reasons of security, Attlee brought President Truman a heartening picture of England's defense materiel production and potential, of heartening improvement in fiscal strength through austerity, of virtual full employment. Outside aid still will be needed; henceforth it will come from new exports.

LONG-RANGE program of military manpower recruitment may come out of the necessity for changes in the Selective Service Act to permit drafting of 18 year olds, possibly veterans and married men—classes which cannot be drawn upon under the law as written. Universal military training—two years in uniform for boys upon reaching the age of 18 years—has only slightly less than an even chance of enactment today. The demand is growing. And it would not be a Student Army Training Corps (SATC) in which training was incidental to the major pursuit of academic education. Military "service" is the term commonly being used and the term "training" may be discarded.

SENTIMENT is growing on Capitol Hill for criminal action against witnesses who bandy about the term "commy" in testimony against Presidential nominees, when there is proof that no basis for the charge exists and that it is not made in good faith. The case of Anna M. Rosenberg highpointed the situation; she was subjected to an ordeal unprecented in severity and established ulterior motive, before she emerged fully cleared for her appointed job.

WASHINGTON SEES:

Tragic as its consequences are, it is doubtful that the country would be on its way to real preparedness today had there not been a "second Dunkirk." The Administration was moving slowly, circling problems that eventually would have to be faced squarely. Rightly or wrongly, business and industry was being accused on high levels of fencing with reality. The civilian population was not in a mood to make the choice between butter and guns. The crisis in Korea was the catalyst that changed all that.

The White House had the experience of World War 2 as warning that divided control authority cannot work, and that voluntary strictures are not effective to insure creation of a military machine to meet a possible global contest. But so long as the Korean situation continued to be regarded as a police action in an isolated area, the essential public acceptance of "all-out" action could not be had.

President Truman's national emergency message and proclamation created unification in the area of control, nipped growing agency rivalries in the bud, stated the need convincingly and set the new pattern for price and wage ceilings.

The call to business and industry to produce at unprecedented rate failed to answer the big question "how?" Plane and other quotas were optimistically set, brought from some quarters the cry of impossible—but industry accomplished the impossible in the last decade! And by dropping the pay-as-we-go principle by adding "so far as possible," the Administration has averted taxation that might have disrupted business, jeopardized all.

As We Go To Press

Preparations for civil defense are lagging to the point of major worry to top federal officials. American Municipal Association conducted a survey, filed the report covering 139 large cities, and the findings were amazing. The White House was told enthusiasm for civil protection is hard to create and harder to sustain. The public is not aroused, partly because Washington hasn't told the story with conviction, hasn't been emphatic enough. States and municipalities have been waiting to find exactly what help, financial and otherwise, will be coming from the top level.

Bright spot was the discovery that most localities have made good progress on inventorying resources and needs. They're checking on equipment, housing, hospital facilities, medical supplies, first aid centers, transportation, and utilities services. But that is described as defense "on paper," it won't work automatically if a major catastrophe should strike. The atomic bomb for instance. Of 400 large cities requested to submit data, only 147 bothered to reply, and of these 139 had material worthy of passing in through the medium of the report.

Recasting of the defense contract renegotiation act is scheduled to be put over until the new congress meets. It's another of the mass of legislative details which are to receive "first priority" -- a promise this congress can't bind its successor to, and which will be calendered in the light of conditions existing in January anyway. Explanation of the ways and means committee is that "action is being suspended while conflicting views of the various departments are being resolved."

Actually, friends of business preferred to have the excess profits tax bill out of the way first. Then, the new law can be written with knowledge of how the profits tax act will affect industry. Rep. Robert Kean, New Jersey republican, and highly influential member of the committee, is on record as believing the excess profits can be squeezed out of government contracts by writing a very strict negotiation bill.

Small business can look for a large order of lip service in meeting the problems flowing from Korea. The senate has appointed a special committee, chairmanned by Senator William Benton of Connecticut. (Benton, by the way, spent much of this year conducting "small business clinics" in his home state; is considered well informed on the subject.) Attention will be directed principally to the affect draft or recall of reservists might have upon top operating personnel in the smaller business units. The problem of getting defense work will be left to others. Attorney General J. Howard McGrath has submitted a report to the White House echoing the plea that small business must be protected from being stifled by large producers. But he doesn't say how!

Defense agency heads seeking to recruit dollar-a-year men are pointing to a little-noticed provision of the Defense Production Act which allows them to draw pay from their private interests while serving the government. The situation has changed since the senate refused to permit a steel executive to retain his private salary and pension rights and work for the Munitions Board without pay. The earlier law prohibits such a practice; now, with Presidential consent, a full-time aide may be hired "without compensation."

The labor unions are dancing on a hot griddle, trying to decide which foot to save from blistering in the darkening manpower outlook. Once again, the government is making up lists of critical occupations, jobs so essential to the war industries that the men performing them should be deferred from military service. Naturally, management sees the problem in clear focus, appreciates that any loss of manpower is a hindrance to production, and from that point out it's a matter of degree. Hence, requests for "essential" classifications will be numerous.

Comes now the Machinists' Union protest: "What is surprising is that many of

these employers still cling to their old employment policy of refusing to hire men over 40. At this critical time when younger men are needed for our fighting forces, we don't see how our government can fail to insist that employers discard these arbitrary age limits in hiring. We suggest that no business be granted deferments for any employee until it can prove it has searched for men of competence regardless of age." All of which is certain to bring a youth vs. age fight within labor's very own ranks.

Meanwhile, the unioneers predict a bright future for the railroads. Estimating the rails' net profit for last year at 698 million dollars, the labor spokesmen fix 725 millions as the 1950 net. The forecast is minus words of congratulation; it serves as the vehicle for criticism of pending freight rate increase petitions to ICC -- the ninth increase for railroads since the end of World War 2 "while labor is seeking only a fourth round of pay boosts."

The housing lobby is pointing with pride and viewing with alarm -- with pride to the fact that private industry has started 1.5 million homes since the present national housing act was adopted, whereas the public act hasn't housed a single family as yet. And the view of alarm is focused on the fact that President Truman has just approved release of more money to make paper plans for another 13 million dollars worth of "subsidized housing." This, laments the private industry, comes at a time when materials are going into short supply and emergency allocations forecasting "business as usual" for government while private operations stand still.

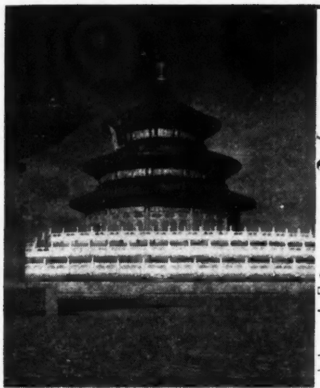
War damage insurance, with government and private companies participating, is on its way back. Fact of the matter is that the system was not abolished after the shooting stopped in Japan, and the only legislation now needed is a bill to extend the date for liquidation, and possibly a few changes in the type of coverage. There will, however, be this additional difference: when the protection was created in World War 2 days, the machinery was not in existence and every property owner received about six months of free coverage. This time it will be more in the nature of a commercial insurance contract, pay as you go.

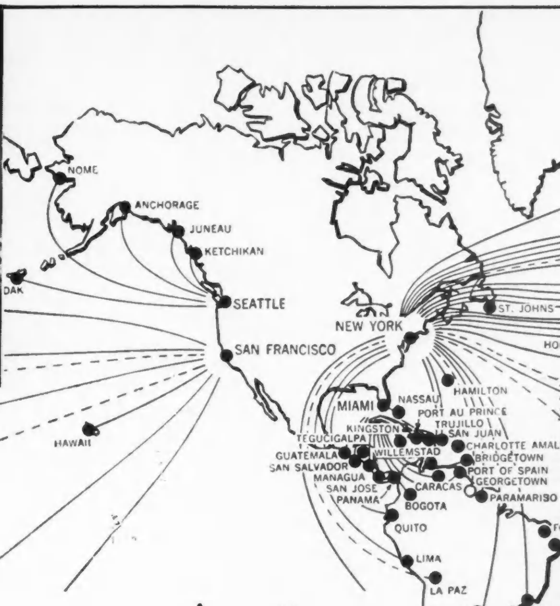
The facilities of private companies again will be utilized. Last time, those firms shared to the extent of 10 per cent -- win or lose. And, naturally, the companies won because there was no war-connected loss in Continental United States ad very little in the territories and possessions. An oddity of experience was the fact that while invasion or attack from the sea was considered more likely on the western states than in the eastern seaboard, the latter section of the country had almost three times as much war risk insurance in effect than was operative on the other coast.

There's prospect of further whittling away on the Post Office Department's annual operating deficit — this year it is expected to run to 500 million dollars. Because congress takes a dim view of tacking heavier charges on users of first-class (letter) mail, and adheres to the position first stated by Benjamin Franklin that printed matter should move at a low rate to aid in disseminating information, Postmaster General Jesse M. Donaldson has been looking for -- and finding -- other avenues leading to cost-of-service operation. He is not sanguine enough to believe that exact balance can be found, but he's aiming in that direction.

Curtailment of mail deliveries, which brought on more fury than economy, won't account for much saving when the totals are struck at the end of the fiscal year. But Donaldson has reached an agreement with the railroads that they will strike out the full fee for returning empty mail cars to their point of origin -- a charge not applied to any other type of traffic. This may cut the deficit as much as 20 per cent. A matching amount will be stricken from the loss statement if the PMG is successful in having Interstate Commerce Commission boost parcel post rates by 25 per cent.

Fundamental in the business of publishing and radio station operation is the issue raised by the CIO against operators of those media in Anderson, S. C. The union ran into the difficulty which is usual when attempting to organize a cotton mill, tried unsuccessfully to buy space and time to argue its case. Press and radio refused. Now a senate committee is considering issuance of subpenas to learn the reason why, but won't act until January.





Europe or Asia

—Which Is More Important?

***By* V. L. HOROTH**

The southward drive of the Chinese communist hordes in Korea has helped to hammer in the grim fact that at this stage of rearmament the United States cannot, alone, stand by all the commitments implied by the Truman Doctrine of containing communism. The military potential of Asia's millions, backed by Russia's industries, has increased too much.

Whether a general war is unleashed or whether we are faced merely by a series of limited wars on the Asiatic continent, the time may come when we will have to contract our over-extended commitments in order *to trade space for time.*

The question that naturally poses itself is what commitments should be given up in order to gain time to rearm properly. Obviously, Stalin is after the control of the Eurasian continent. What peninsulas which the West still holds, are, so to speak, "expendable"? Is it the great Indo-Chinese peninsula (including Indo-China, Thailand and Burma), or Korea?

Or should Western Europe—which in fact is one of the Eurasian peninsulas—be abandoned? And what about the Near East and the great Arabian peninsula which, besides being the cross-roads of the world, contains the largest known petroleum reserves?

These questions are being asked not only in the United States. They are being asked by the Western Europeans, who are jittery at the idea that at the urgings of General MacArthur we may concentrate too much of our available power at "the approaches to China"—in Korea, Indo-China, and the Philippines. British Prime Minister Attlee made his hurried trip over here a few weeks ago probably as much to advise us against an overhasty move against the Chinese Reds, as to assure himself and other Europeans that Western Europe will not be scuttled if a general war comes.

Probably the Japanese, the Fillipinos, the Persians, and the Turks are asking much the same questions. Will the commitments made to them be deflated? Why should they be the "expendables" rather than the Western European countries which had to be goaded into rearming and which even now refuse to bury their differences in the face of Russian aggression?

The answer as to how much and where space can be traded for time should depend, in the first place, upon the emergency itself. If a general war should erupt tomorrow and some 200 Russian and satellite divisions should march toward the Rhine, and if at the same time Mao should send his hordes into the Indo-Chinese peninsula, we might be forced to retire behind the Pyrenean barrier and to the islands flanking Eurasia in order to make a stand in the Near East so as to protect the valuable petroleum reserves and to bar the road to Africa.

The A-Bomb and Our Air Force

But the Russians are still awed by our air force and atomic weapons, and hence are unlikely to unleash a Third World War next week. They may draw us in peacemeal over a period of time, but at the present rate of rearming here and, let us hope, before long also in Europe, it may not be necessary to sacrifice too much.

Western Europe is unquestionably the most logical place to hold on to as long as possible. The reasons are many. The bulk of the civilian population will be with us. Second, as against some 280 million Russians and satellites, there are some 300 million West-

ern Europeans. Even without German factories, the millions of Western Europeans have at their command and industrial capacity (measured by steel output) almost twice as large as the communist orbit. As a matter of fact, if united and properly rearmed, the Western Europeans could face the Soviet Union and the satellites alone, without our aid. We have recognized this and have spent in the last three years over $10 billion to enable Western Europe to look after herself.

Defeatism in Western Europe

But though in theory Western Europe has the population and the industrial capacity to face the Russian and satellite hordes, the realities may be quite different. Most of the 20 political units comprising Western Europe are interested in saving their own skins, secretly hoping that the Russians can be appeased. There is defeatism, fatalism, and war-weariness. And there is a lack of will to resist. Why should the socialist countries fight to strengthen the capitalist system?

The situation, naturally, varies from country to country. Only Great Britain and the Scandinavian countries and Switzerland, where the living standards are high, and the people democratic by conviction, would probably put up a real fight. Belgium and the Netherlands are war-weary. France continues to be divided, with the communists high in army posts and the unions, and still the second largest political party.

The 50 million Italians are tired, hungry, and disarmed, and hope to sit out any conflict that comes along. The 26 million Spaniards show some fighting spirit, but if the grinding power of the bulk of the people is considered, the outlook is none too hopeful. The countries where nationalism is still a powerful driving force, such as Greece and Yugoslavia, may give a good account of themselves.

The Problem of German Re-Arming

The key to Western Europe's defense are the 50 million Western Germans. Though some 150,000 of them are to be included in the all-European Army, and many more would probably fight as volunteers, it would be a mistake to assume that the simple act of re-arming will make them our allies.

Mr. Walter Lippman, who recently returned from an extended trip to Western Europe, reports that the Germans can be made to fight willingly only (1) if they are given absolute equality in armament with Western Europe, and (2) if we prove to them that we have enough military power to carry the war beyond Germany into Poland or Russia. Most of the Germans abhor the idea of seeing their country a battlefield between the East and West their natural reaction would be to lie low while the opposing armies rolled over them. "The disillusioned masses might be aroused to fight," comments Mr. Lippman, "only for a war to reunite Germany and to recover the lost territories in the East."

The French and other Continentals are, naturally, bitterly opposed to anything that may gradually lead to the restoration of the Reich and the Wehrmacht. They would much prefer to have massive American and British armies on the Continent – were these available. They argue, and not without some point, that the rearmament and the restoration of Germany may provide Stalin with a psychological basis for preparing the Russian people for an aggressive war. They also warn that our promises to Germany will discourage the Poles, the Czechs, and other Eastern satellites, and that they may willingly support the Russians rather than turn against them.

There is little doubt that Stalin fears nothing more than a rearmed and restored Germany. Hence it is quite possible that before he takes steps to prevent it, he will propose to the Western Allies a neutralization of Germany with a Russian voice in the control of the Rhur. Much will depend on what offer is made, and what guarantees there are against Germany's falling prey to communists.

But before we meet the Russians—and there are rumors that new talks with Moscow may be in the offing—and before we reject their offer, we might be well advised to clarify our own aims and objectives. What would be our real objective in fighting World War III? What kind of a world would we want after the defeat of the Soviet Union? Might we not then be facing another insoluble problem, another potential enemy? Might not a Third World War prove to be a prelude to yet another war, later on?

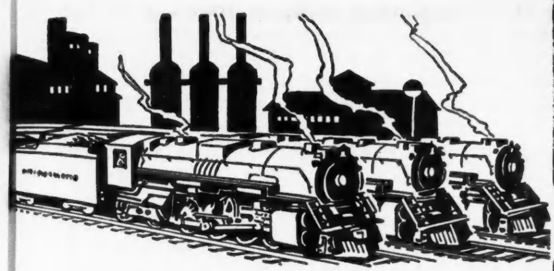
The Importance of Holding Korea

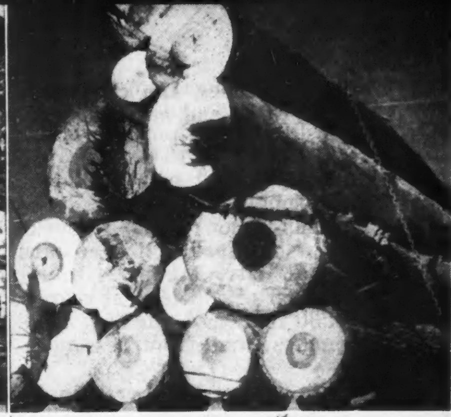
With German rearmament creating more problems than it solves, and with the rest of Western Europe lacking in will to fight and in convictions, wouldn't it be better if we tried, instead, to hold on to Korea and to the great Indo-Chinese peninsula? It could be argued that as long as we check the Chinese Reds in Korea, they are not in a position to strike elsewhere, notably in Indo-China. On the other hand, our abandonment of Korea would release the communist hordes against Indo-China, Burma, and Thailand. The fall of these countries would in turn leave China and Russia invulnerable in the Far East—except to our bombing—and thus release Russian armies for the over-running of Western Europe.

Apart from the argument that our retirement from the Asiatic mainland might eventually make Western Europe untenable, the Western industrial and military potential would not be seriously weakened by the loss of Korea, Indo-China, Thailand, and Burma. Although the natural resources of this area are great, comprising tin, rubber, antimony, chromite, shellac, copra, coal, and tungsten they are still largely undeveloped.

It might take the communists several decades to make real use of them. But the area is on important rice producer—which would help China. And its 80 million people would provide, of course, more potential guerilla fighters and cannon fodder for the communists. All this presupposes that the Western Allies would continue to hold on to the islands fringing the Asiatic Continent: to Japan, to the Ruykuys, to Formosa, to the Philippines, to Indonesia, and above all to Malaya, which could be easily defended by a line across the Isthmus of Kra. It is in this latter area, which could be held, where most of the rubber, tin, petroleum, mica, chromite, pepper, quinine, tapioca, tea, and pepper is produced.

Probably the best argument in favor of our retirement from the mainland of Asia in the Far East is that we are basically unprepared to fight a guerilla war in which we would be constantly outnumbered. The weapons which we have developed are ineffective in such a war. The atomic bombing of such cities as Shanghai, Tientsin, *(Continued on page 351)*





Study of . . . . . .

SOUTHERN RAILWAY

—A GROWTH STOCK

By ROGER CARLESON

Rapid expansion of our military might, a policy to which the United States now seems firmly committed, places a heavy responsibility on the nation's transportation industry. By the same token, such a program means substantial enlargement of freight traffic and assurance of an abnormally high earnings potential for principal railroads. Because industrial output can be more readily increased and recruits can be more effectively trained where climatic conditions are most favorable, it may be reasoned that railroads serving the South would be logical candidates to benefit from an accelerated national defense program.

Just as Southern Railway, operating an extensive system of about 6,500 miles across all sections of the South, experienced outstanding progress in World War II, so this road should reap benefits of the new rearmament program which envisions swift growth in our military potential. Decision of the Washington Administration to step up induction of young men into the armed forces points toward reactivation of numerous training centers in the South and to further dispersal of industries to that area, where labor as well as weather conditions are especially conducive to full time operations.

This development is notably significant for Southern Railway at this time because it goes far toward assuring successful adjustment of large bond maturities in the next few years. Indebtedness of more than $120 million coming due in less than six years from January, 1951, through November, 1956, had posed such a serious problem for this carrier that investors had maintained a skeptical attitude toward both its preferred and common stocks for many years.

Even after boom conditions experienced in the recent war, investors felt that refinancing of maturities in a short period of time would prove difficult. Now the future seems more reassuring. With a comparatively modest capitalization, Southern would be in a particularly strong financial position once its near term maturities can be successfully refinanced.

In the light of current conditions, securities of Southern Railway deserve careful attention. Prolongation of the high rate of industrial activity experienced in recent months would encourage the belief that hazards incident to forthcoming maturities could be virtually eliminated. Such a development would hold out prospect of lifting the road's preferred and common shares to high investment ranking.

Serving the Growing South

"The Southern Serves the South," the railroad's motto, succinctly indicates the system's area of operations. Principal cities in every state east of the Mississippi River and south of the Potomac (excluding West Virginia) are served. The main line extends from Washington to Atlanta, while other routes extend to Macon, Savannah and Jacksonville in one direction and to Knoxville, Chattanooga, Birmingham and Memphis in another. The controlled Cincinnati, New Orleans & Texas Pacific and the Alabama Great Southern, both profitable properties, comprise the Queen & Crescent Route linking Cincinnati and New Orleans. Direct routes are operated to St. Louis and points in Kentucky, while connection with Chicago is provided over the Monon.

Although territory served is primarily agricultural, industrial traffic is becoming increasingly important. Textile manufacturing is expanding rapidly in Virginia and in the Carolinas, while Georgia and Mississippi are becoming major sources of kraft paper, paperboard containers and other products derived from pine forests of the South. Ordinarily mine products contribute between 15 and 20 per cent of

freight revenues, the chief item being soft coal. Manufactured and miscellaneous goods account for almost half of shipments, while agricultural products represent 12 to 15 per cent in normal times. Cotton is an important farm product.

Passenger business gradually has been declining, but this is not a serious development as a comparatively small proportion of earnings is attributed to this activity. About 4 million passengers used Southern's facilities last year, compared with 16 million 30 years ago, and only about 8.5 per cent of gross revenues came from passenger business in 1949.

Operating Costs

Like other carriers, Southern has faced the task of combating rising operating costs—and like many progressive roads which have resorted to diesel locomotive power, this management has achieved considerable success in controling expenses. Evidence of confidence placed in the more economical engines is afforded by management's recent decision to purchase an additional 100 diesels at a cost of approximately $17 million. The new equipment is expected to be delivered late in 1951.

The extent to which progress in operating efficiency has been maintained is illustrated by the fact that revenue per ton mile has been held at 1.5 cents for the last thirty years. Increased rates have only barely enabled the road to take in as much as it did in 1921 for freight movement. Diesels have made possible speedier train movement as well as longer trains and have reduced maintenance costs to an extent that costs of handling freight on a tonnage basis have been reduced in proportion to advances in hourly wage rates.

Benefits of improved equipment facilities are showing up in 1950 operating results as freight volume has expanded in reflecting emphasis on armament production. In the number of cars handled, Southern has shown an increase for this year of about 9.5 per cent, which compares favorably for Class I roads of the country.

In the first ten months of the year, however, net operating income registered an improvement of 43.5 per cent over the corresponding period of 1949 and net income available for the common shares amounted to $9.53 a share, against $3.88 in the first ten months of last year. Allowing for seasonal factors, it is estimated the road may show earnings for the year of $14 to $14.50 a share. This estimate allows for the company's share of additional mail compensation to be paid by the Post Office under a recent I.C.C. decision.

Although the $600 million Atomic Energy Commission's plant expansion in South Carolina is located on land served by an Atlantic Coast Line affiliate, Southern no doubt stands to benefit from increased movement of materials from connecting lines in the area. Moreover, work on this project means vast improvement in business conditions all through South Carolina and Georgia which would contribute to freight movement over Southern's lines.

This development, along with the prospect for increased industrial activity in the South in connection with national defense, holds out promise for a high rate of operations in 1951. Although it is too early to project earnings for the new year, it would seem reasonable to anticipate maintenance of traffic gains for the early months of next year. Increased wages are a foregone conclusion, but heavier charges can be readily absorbed so long as traffic trends remain favorable. Moreover, railroads are well situated to escape too burdensome taxes under provisions of the new revenue measure.

Final provisions of the legislation had not been agreed upon between the Senate and the House as this was written, but indications pointed toward acceptance of main provisions of the House bill. Special provisions have been written into the measure to protect industries regulated by commissions (such as railroads, electric power and light companies and telegraph utilities). The House bill provided three alternatives for railroads, among them an exemption on invested capital comprising chiefly "basic equity capital credit" and one-third of interest deductions on debt.

It is unnecessary to go into great detail in explaining the provisions, but it may be said that very satisfactory earnings of most roads for 1950 presumably

Long Term Operating and Earnings Record

	Total Railway Operating Revenues	Railway Operating Expenses	Operating Ratio %	Net Railway Operating Income	Gross Income	Balance For Fixed Charges	Total Fixed Charges	Net Income	Net Per Share	Div. Per Share	Price Range High Low
	(millions)			(millions)							
1950 (9 months)	$169.2	$124.2	73.4%	$20.2	$22.4	$22.2	$ 8.0	$12.6	$ 8.02	$3.00[1]	*49½-32¾
1949	212.7	166.4	78.2	21.8	25.1	24.8	12.9	11.9	6.87	4.00	41 -25⅛
1948	245.0	184.6	75.3	29.1	32.2	31.9	12.7	19.2	12.52	3.25	50⅛-33½
1947	222.8	171.6	77.0	21.3	24.8	24.6	12.7	11.8	6.85	3.00	50½-28
1946	212.0	171.7	81.0	19.3	22.1	21.9	12.6	9.2	4.82	3.00	65 -33
1945	247.5	173.9	70.2	26.8	30.3	29.9	13.6	16.2	10.24	3.00	60⅜-32¾
1944	260.9	156.9	60.1	33.4	36.9	36.5	14.3	22.2	14.83	2.75	34⅞-20
1943	245.5	136.6	55.6	35.7	38.5	38.2	14.7	23.5	15.81	2.00	30⅜-15¾
1942	204.6	113.7	55.5	46.2	49.4	49.0	15.6	33.3	23.41	—	18⅝-12½
1941	139.9	88.5	63.2	32.7	35.6	35.3	15.9	19.3	12.60	—	19⅛-11¼
1940	105.9	72.8	68.8	21.4	24.1	23.8	16.4	7.3	3.35	—	20½- 8
10 Year Average 1940-49	$209.6	$143.6	68.4%	$28.7	$31.9	$31.5	$14.1	$17.3	$11.13	$2.10	65 - 8

(*) 1950 Price Range to December 14.

(1) Paid so far in 1950 to December 1950.

would be tax exempt under EPT. In the case of Southern, as an example, it is calculated that exemptions would permit net income equivalent to approximately $13.50 a share before earnings would become subject to EPT. Assuming that final provisions of the bill call for retroactive assessment to July 1, 1950, Southern may be liable for a comparatively small excess profits tax on 1950 income.

Acquisition of new equipment is expected to help hold down operating expenses next year—assuming continuance of heavy freight movement—and purchases are contemplated under provisions permitting accelerated depreciation, so that actual out-of-pocket costs for new locomotives would be quite satisfactory. Few investors appreciate the potential savings afforded by diesels which can be operated virtually twenty-four hours a day.

Economies Through Dieselization

In this connection, the Interstate Commerce Commission recently estimated that economies achieved through dieselization approximated $342 million in 1948. On basis of current traffic benefits, in 1950 they must have been substantially larger. Thus when it is considered that Class I roads may report net income of not much more than $900 million for the year just ending, it can be seen that savings from dieselization must have contributed the major portion. Benefits derive not so much from substitution of oil as fuel instead of coal but from the fact that the locomotive is more efficient and can be operated for greatly increased periods of time without overhauling for service repairs. This fact helps explain the consistent decline in number of employees engaged in railroading. Roads were employing only about 1.3 million persons in the third quarter this year, against more than 1.4 million in 1944.

As mentioned previously, the current sharp rebound in earning power promises to go far toward enabling Southern to solve its serious refunding problems. First step in this direction is payment in cash at maturity this January 1 of $12,474,000 St. Louis division 4s. Next important maturities are $7,195,000 New Orleans & North Eastern 4½s due a year hence and $14 million New Orleans Terminal 4s due July 1, 1953. It would not be surprising if the management should undertake repayment of these issues in a refunding operation within the next few months.

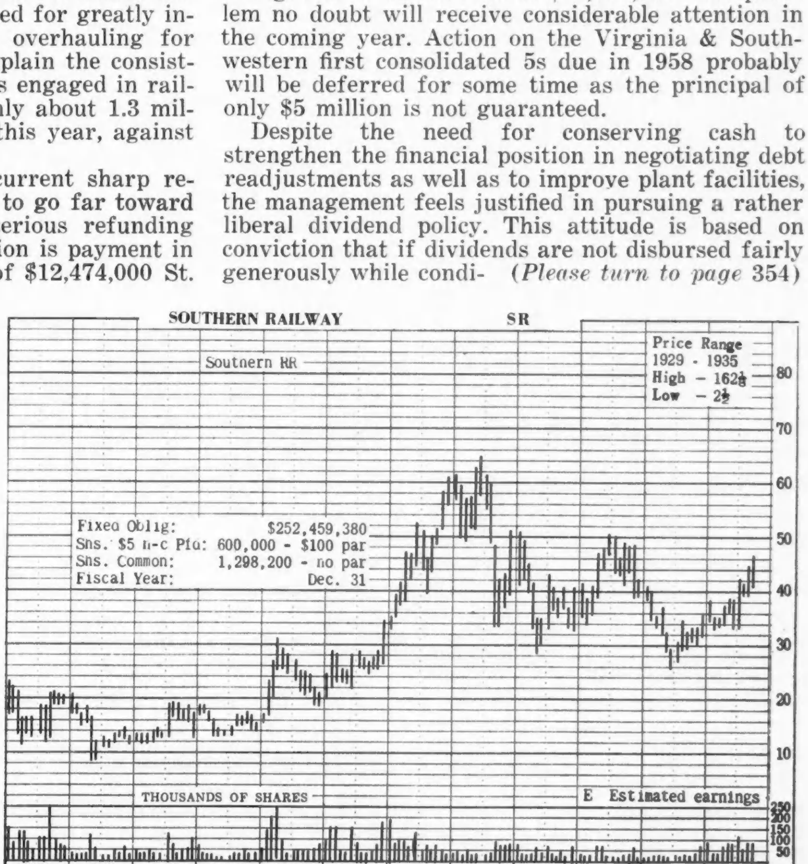
The New Orleans Terminal issue is not callable, so that an offer of prepayment might be made next summer if conditions at that time are favorable. Although the New Orleans & North Eastern 4½s are callable at 107½, it seems improbable that management would consider payment of the premiums now that maturity is so near. Hence, a voluntary adjustment might be proposed to clear up the indebtedness.

It is too early as yet to consider plans for meeting the 1956 maturities of $71,530,000 development and general 4s, 6s and 6½s as well as the East Tennessee, Virginia & Georgia 5s to the amount of $12,770,000. The problem no doubt will receive considerable attention in the coming year. Action on the Virginia & Southwestern first consolidated 5s due in 1958 probably will be deferred for some time as the principal of only $5 million is not guaranteed.

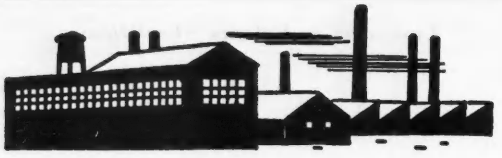
Despite the need for conserving cash to strengthen the financial position in negotiating debt readjustments as well as to improve plant facilities, the management feels justified in pursuing a rather liberal dividend policy. This attitude is based on conviction that if dividends are not disbursed fairly generously while condi- (*Please turn to page 354*)

Comparative Balance Sheet Items

	December 31 1940	December 31 1949	Change
	(000 omitted)		
ASSETS			
Cash	$ 22,997	$ 19,934	$— 3,063
Temporary Cash Investments	—	27,262	+ 27,262
Receivables, Net	7,334	15,884	+ 8,550
Materials & Supplies	6,548	13.523	+ 6,975
TOTAL CURRENT ASSETS	26,879	76,603	+ 39,724
Property	530,695	644,734	+114,039
Reserve for Deprec. & Amort.	—	(CR.)100,231	+100,231
Investments	59,915	64,303	+ 4,388
Other Assets	4,111	7,195	+ 3,084
TOTAL ASSETS	$631,600	$692,604	$+ 61,004
LIABILITIES			
Accounts Payable	$ 10,744	$ 18,546	$+ 7,802
Accruals	8,709	32,894	+ 24,185
TOTAL CURRENT LIABILITIES	19,453	51,440	+ 31,987
Accrued Depreciation	36,703	—	— 36,703
Other Unadjusted Credits	6,246	12,921	+ 6,675
Other Liabilities	7,017	4,147	— 2,870
Funded Debt	288,443	252,459	— 35,984
Preferred Stock	60,000	60,000	—
Common Stock	129,820	129,820	—
Surplus	83,918	181,817	+ 97,899
TOTAL LIABILITIES	$631,600	$692,604	$+ 61,004
WORKING CAPITAL	$ 17,426	$ 25,163	$+ 7,737
CURRENT RATIO	1.9	1.5	— .4



1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	
2.69	3.35	12.61	23.41	15.81	14.84	10.24	4.81	6.85	12.51	6.87	E11.00	EARN.
-	-	-	-	2.00	2.75	3.00	3.00	3.00	3.25	4.00		DIV.
8.8	17.4	20.5	24.6	30.2	41.8	49.1	44.9	36.6	38.1	25.1	Wkg Cap $ Mil	



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FIVE STOCKS

That Should Do Well in WAR or PEACE

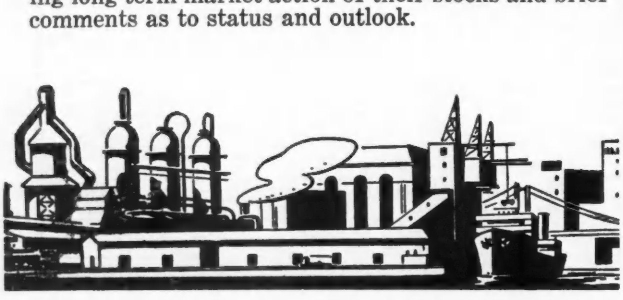
Selected By Our Staff

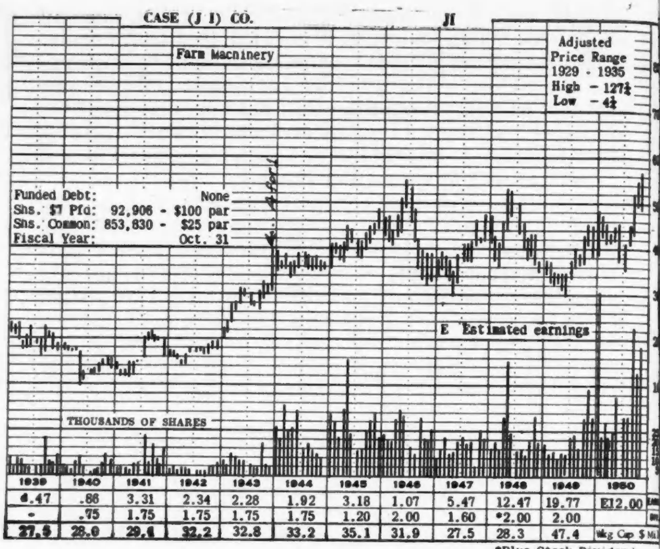
The new economic and business environment shaping up as a result of the accelerated defense effort poses a great many problems and uncertainties for investors depending on dividend income. While there is general agreement that sound common stocks offer the best prospect for obtaining a satisfactory yield in the period ahead, and though current income return is unusually liberal in an exceptionally large number of cases, the need for careful selection —with an eye to the future—is greater than ever.

Current high earnings of many companies could shrink rapidly next year under the impact of reduced volume because of restrictions, higher taxes which have become a definite prospect, or an expanding proportion of low-profit military business. Such factors, plus a possible need to accumulate working capital by retaining a greater proportion of earnings, might readily bring into question dividend stability in a good many instances. But there also are others where dividends seem in little or no jeopardy even under a combination of the restrictive influences cited.

For the benefit of our readers, we have selected five stocks that in our opinion hold such promise. They represent shares of companies where maintenance of high level activity is indicated for an indefinite period, where dividends are covered by a substantial margin, and where prospective earnings are unlikely to suffer seriously from excess profits taxes. All have sizeable EPT exemptions by virtue of a high postwar earnings average. Managements are efficient and finances strong and liquid.

On this and the following pages, we present statistics pertinent to these five concerns, charts showing long term market action of their stocks and brief comments as to status and outlook.





*Plus Stock Dividend

J. L. CASE COMPANY

BUSINESS: Company is a leading manufacturer of tractors for farms and industrial purposes, together with a complete line of farm equipment, from plows to large combines.

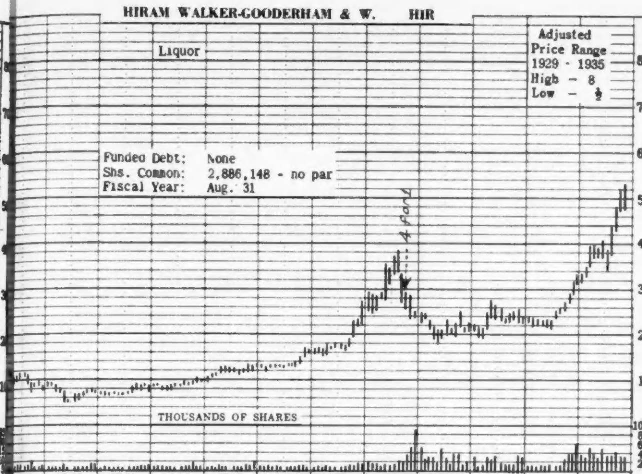
OUTLOOK: The vast mechanization of agricultural operations in postwar has permanently broadened the vista for producers of cost-saving equipment such as that for which Case has established a strong reputation. So many of these machines are now in use that sales of replacement parts on which margins are more satisfactory have reached sizable proportions. Because farmers are well heeled and farm income will remain high, and henceforth they will experience increasing manpower problems, the sales outlook for Case is bright for several years to come. Due to the need for heavy food production, chances are that ample quantities of steel will be allocated to this concern. Case should also be well situated to produce equipment and munitions for the Armed Forces without facing serious conversion problems. In postwar the company has more than doubled its net property account and completely modernized its facilities; hence it is well placed to operate with enlarged capacity and improved efficiency. Although volume lagged in the forepart of 1950, a sharp pick-up following Korea is believed to have brought sales for fiscal 1950, ended October 31, to a point that might result in net earnings of about $12 per share. Earnings in 1948 and 1949 were $11.39 and $19.86 per share respectively. This company issues no quarterly reports. Last year's annual report revealed an impregnable financial position with current assets of $70.6 million compared with current liabilities of $23.2 million.

DIVIDENDS: Since 1912, payments have been interrupted only in recessive periods and have been regular since 1940. During the current year, a stock dividend of 10% was paid and a total of $5 per share in cash has been declared.

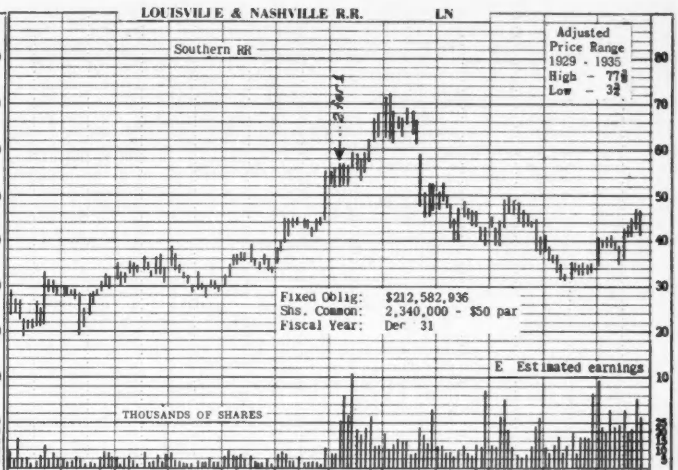
MARKET ACTION: Recent price—47¾ compares with a 1950 high of 56⅞ and a low of 35⅝. The current yield is 10.4%.

COMPARATIVE BALANCE SHEET ITEMS

	October 31 1940	1949 (000 omitted)	Change
ASSETS			
Cash	$ 7,808	$ 16,104	+$ 8,296
Receivables, Net	6,802	2,287	— 4,515
Inventory	15,723	52,304	+ 36,581
TOTAL CURRENT ASSETS	30,333	70,695	+ 40,362
Plant and Equipment	23,151	48,362	+ 25,211
Less Depreciation	11,321	19,973	+ 8,652
Net Property	11,830	28,389	+ 16,559
Other Assets	1,401	529	— 872
TOTAL ASSETS	$ 43,564	$ 99,613	+$ 56,049
LIABILITIES			
Bank Loan Payable	$ 401	....	—$ 401
Accounts Payable	1,108	$ 6,281	+ 5,173
Accruals	110	3,825	+ 3,715
Accrued Taxes	685	13,104	+ 12,419
TOTAL CURRENT LIABILITIES	2,304	23,210	+ 20,906
Reserves	600	12,975	+ 12,375
Preferred Stock	10,182	9,290	— 892
Common Stock	19,496	21,436	+ 1,940
Surplus	10,982	32,702	+ 21,720
TOTAL LIABILITIES	$ 43,564	$ 99,613	+$ 56,049
WORKING CAPITAL	$ 28,029	$ 47,485	+$ 19,456
CURRENT RATIO	13.2	3.0	— 10.2



	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950
EARN.	1.64	1.90	2.00	2.27	3.01	2.45	3.22	5.28	6.54	8.62	8.19	9.68
DIV.	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.05	1.27½	2.00	2.10	
Wkg Cap $ Mil	29.4	33.4	36.9	51.1	54.9	49.6	51.3	45.0	77.8	94.8	100.9	



	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950
EARN.	3.16	4.01	8.33	8.28	9.07	7.95	7.49	4.95	5.68	7.91	3.51	E 4.75
DIV.	2.50	3.00	3.50	3.50	3.50	3.50	3.51½	3.52	3.52	3.52	3.52	
Wkg Cap $ Mil	35.9	22.7	32.8	36.0	40.7	45.6	48.4	42.6	42.6	70.7	43.6	

HIRAM WALKER-GOODERHAM & WORTS, LTD.

BUSINESS: Company is the leading distiller in Canada and one of the four largest producers of whiskies and gin in the United States.

OUTLOOK: As this concern sells about 85% of its total output in the United States, it should benefit by the increasing amount of national income in this country. For several years past, Hiram Walker has been accumulating substantial stocks of whiskies for aging in warehouses; to-date its inventories of these are the largest in the company's history. Because of this circumstance, the present prospect that distillers in the U. S., and probably in Canada, may be called on to devote a substantial portion of distillery capacity to production of synthetic alcohol for defense purposes would affect operations less adversely than might be supposed. If blended whiskies become scarcer, there are ample stocks of "straights" either for sale as such or for blending. The company's distillery in Peoria, Illinois, is the world's largest. In the current year, demand from dealers since Korea for all whiskies and liquors has soared by 58%. Volume of Hiram Walker for the fiscal year ended August 31 attained a record high of $343 million (Canadian), extending an annual gain that except in three years has been characteristic since 1934. Net income of $9.68 per share for fiscal 1950 compared with $8.19 the year before. The company greatly improved its financial position this year by paying off all funded debt in the United States and Canada, although a Scottish subsidiary borrowed one million sterling in 1949 to build up whiskey stocks, and this debt is still outstanding.

DIVIDENDS: Since 1936, stockholders have received dividends regularly. During fiscal 1950, a total of $2.40 per share was paid, but this December a quarterly dividend of 75 cents was paid plus $1 extra. Total payments in calendar year 1950 were $3.55 (Canadian).

MARKET ACTION: Recent price—49½ compares with a 1950 range of high—53, low—31. Based on dividends in calendar 1950 the current yield is 7.1%.

COMPARATIVE BALANCE SHEET ITEMS*

	August 31 1940	1950 (000 omitted)	Change
ASSETS			
Cash	$ 1,557	$ 11,820	+$ 10,263
Marketable Securities	....	4,285	+ 4,285
Receivables, Net	7,697	43,803	+ 36,106
Inventories	30,890	88,475	+ 57,585
TOTAL CURRENT ASSETS	40,144	148,383	+ 108,239
Plant and Equipment	26,285	50,108	+ 23,823
Less Depreciation	8,761	20,819	+ 12,058
Net Property	17,524	29,289	+ 11,765
Investments	3,662	3,974	+ 312
Other Assets	1,076	1,520	+ 444
TOTAL ASSETS	$ 62,405	$ 183,166	+$ 120,761
LIABILITIES			
Bank Loans	$ 1,100	$ 3,300	+$ 2,200
Accounts Payable	1,102	3,624	+ 2,522
Accruals	1,291	3,305	+ 2,014
Accrued Taxes	3,244	25,438	+ 22,194
TOTAL CURRENT LIABILITIES	6,737	35,667	+ 28,930
Reserves	1,187	2,500	+ 1,313
Other Liabilities	1,185	2,796	+ 1,611
Funded Debt	11,454	3,072	— 8,382
Preferred Stock	11,216	....	— 11,216
Common Stock	17,330	17,242	— 88
Surplus	13,296	121,889	+ 108,593
TOTAL LIABILITIES	$ 62,405	$ 183,166	+$ 120,761
WORKING CAPITAL	$ 33,407	$ 112,716	+$ 79,309
CURRENT RATIO	5.9	4.1	— 1.8

(*)—Canadian Currency.

LOUISVILLE & NASHVILLE RAILROAD

BUSINESS: The L. & N. System operates 6,665 miles of track connecting most of the important industrial centers from St. Louis and Cincinnati south to the Gulf of Mexico.

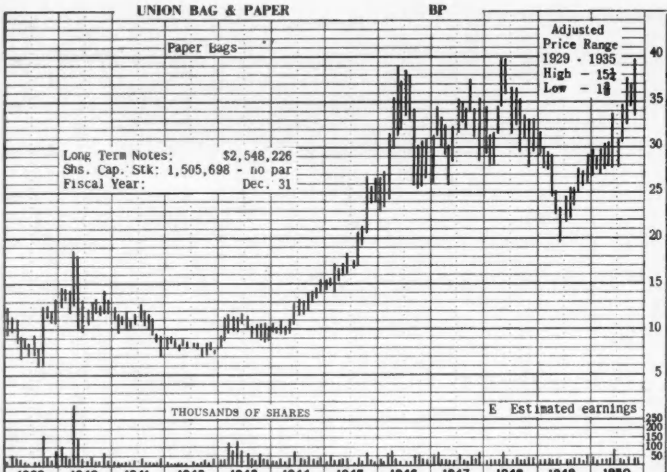
OUTLOOK: The territory served by this road includes numerous areas where industrial expansion in postwar has been notably impressive, and where further growth is well assured. Substantial traffic also stems from the eastern states where Atlantic Coast Line Railroad operates and owns about a third of L. & N.'s common stock. Under foreseeable conditions, freight revenues should mount consistently as the vigorous steel and other manufacturing industries, together with agriculture, step up their activities to meet defense requirements. This road is also an important bituminous coal carrier and should benefit from expanding demand for this fuel. Operations in the current year have been unusually satisfactory because of enlarged freight traffic. Operating revenues of $166 million for the first ten months were 12% above a year earlier, and net income rose to $18.7 million or $8 per share from $6.1 million or $2.63 per share in the same period of 1949. In part the gain was due to receipt of $1 million back payment for mail traffic, and $2 million more is still to come. Installation of many diesel-electric locomotives is effecting substantial reductions in operating costs this year. The improvement has been reflected by a reduction in the ratio of transportation expenses to revenues to 31.3 in October compared with 41.9 for all of 1949, and 40.2 for the first six months of 1950. All said, the outlook for L. & N. is most encouraging.

DIVIDENDS: Stockholders have received dividends regularly since 1934. For two years past, quarterly dividends of 88 cents a share have been paid, an annual rate of $3.52. Rather clearly this might be improved before long.

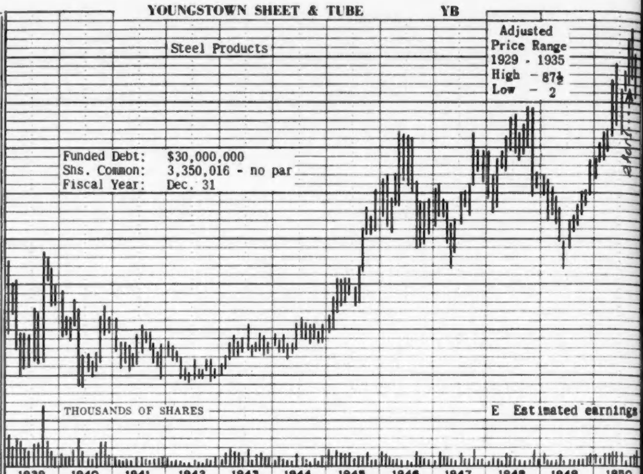
MARKET ACTION: Recent price—47½ compared with a 1950 range of high—48½, low—34½. The current yield is 7.5%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1940	1949 (000 omitted)	Change
ASSETS			
Cash	$ 19,336	$ 33,920	+$ 14,584
Receivables, Net	7,204	15,097	+ 7,893
Materials & Supplies	9,708	17,609	+ 7,901
Other Current Assets	461	1,519	+ 1,058
TOTAL CURRENT ASSETS	36,709	68,145	+ 31,436
Property	450,773	565,400	+ 114,627
Reserves for Deprec. & Amort.	....	(CR) 167,560	+ 167,560
Investments	31,833	27,440	— 4,393
Other Assets	17,553	6,246	— 11,307
TOTAL ASSETS	$ 536,868	$ 499,671	—$ 37,197
LIABILITIES			
Accounts Payable	$ 5,944	$ 11,274	+$ 5,330
Accruals	8,054	13,188	+ 5,134
TOTAL CURRENT LIABILITIES	13,998	24,462	+ 10,464
Accrued Depreciation	91,125	....	— 91,125
Other Unadjusted Credits	4,770	9,349	+ 4,579
Other Liabilities	4,999	858	— 4,141
Funded Debt	224,646	212,490	— 12,156
Capital Stock	117,000	117,000	— ....
Surplus	80,330	135,512	+ 55,182
TOTAL LIABILITIES	$ 536,868	$ 499,671	—$ 37,197
WORKING CAPITAL	$ 22,711	$ 43,683	+$ 20,972
CURRENT RATIO	2.6	2.8	+ .2



	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	
	.76	1.68	1.70	1.50	.83	1.25	1.30	4.13	7.93	9.17	5.01	E 6.50	EARN.
	-	1.00	1.00	.80	.30	.75	.85	1.30	3.00	4.00	2.50		DIV.
	4.1	5.1	5.1	4.6	5.7	6.9	7.3	8.3	14.7	15.3	14.0	Wkg Cap $ Mil	



	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950
EARN.	1.75	2.98	4.57	2.83	2.16	2.13	2.06	4.26	7.85	10.66	9.49	E 11.00
DIV.	-	.62½	1.50	1.25	1.00	1.00	1.00	1.50	2.00	2.50	3.00	
$ Mil	72.3	78.3	88.0	95.8	102.0	115.4	100.8	109.8	119.5	149.0	166.9	Wkg Cap $

UNION BAG & PAPER COMPANY

BUSINESS: Company is a long established manufacturer of paper bags, kraft wrapping paper, container boards and corrugated containers, waterproof papers used in the construction industry, etc.

OUTLOOK: The accelerated pace of manufacturing and commercial activity now in prospect for an indeterminate period should benefit Union Bag & Paper substantially. For both military and civilian production, the numerous wrappings and containers made by this strongly entrenched supplier should be in unusually heavy demand. The expendable character of these items tends to create sizable replacement sales. Ample raw materials for the company's products are assured by control of half a million acres of woodland to furnish the pulp required. Since pulp supplies are scarce throughout the industry, firm prices prevail and thus permit satisfactory margins on the company's finished products. For many years past, Union Bag has been the dominant producer of paper bags so widely used by grocers and other retailers, whose rapid turnover at present will likely continue unabated. During 1950 this concern has made excellent progress, with sales for the first nine months rising to $56.6 million for a gain of 23% over the corresponding span of 1949. On this enlarged volume, aided by numerous cost-economies introduced in postwar, margins widened to lift net earnings after retroactive taxes to $4.97 a share, up 50%. Net for full 1950 will likely reach $6.50 per share. Since the company's EPT exemption base is around $7 per share, earnings this year would not be pared if excess profits taxes are made retroactive. Strong finances are shown by a current ratio of 5 to 1.

DIVIDENDS: For the past 35 years, dividends have been paid in all but 9, with only one interruption since 1934. Payments in 1950 have totaled $3 a share, including extras of 50 cents in the two latest quarters.

MARKET ACTION: Recent price—36¼ compared with a 1950 high of 39⅞ and a low of 26¾. The current yield is 8.3%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1940	1949 (000 omitted)	Change
ASSETS			
Cash	$ 1,870	$ 6,339	+$ 4,469
Marketable Securities	999	1,297	+ 298
Receivables, Net	2,216	3,660	+ 1,444
Inventories	2,560	6,305	+ 3,745
TOTAL CURRENT ASSETS	7,645	17,601	+ 9,956
Plant and Equipment	22,092	56,055	+ 33,963
Less Depreciation	7,714	22,539	+ 14,825
Net Property	14,378	33,516	+ 19,138
Other Assets	431	1,113	+ 682
TOTAL ASSETS	$ 22,454	$ 52,230	+$ 29,776
LIABILITIES			
Notes Payable	$ 114	$ 496	+$ 382
Accounts Payable	477	1,575	+ 1,098
Accruals	167	985	+ 818
Accrued Taxes	1,784	480	— 1,304
TOTAL CURRENT LIABILITIES	2,542	3,536	+ 994
Long Term Notes	4,686	2,584	— 2,102
Reserves	252	353	+ 101
Capital Stock	9,543	11,203	+ 1,660
Surplus	5,431	34,554	+ 29,123
TOTAL LIABILITIES	$ 22,454	$ 52,230	+$ 29,776
WORKING CAPITAL	$ 5,103	$ 14,065	+$ 8,962
CURRENT RATIO	3.0	5.0	+ 2.0

YOUNGSTOWN SHEET & TUBE COMPANY

BUSINESS: Company is completely integrated steel producer, with a recent effective ingot capacity in excess of 4 million tons. Manufacture of sheet steel, strip and other rolled products, plus tin plate, tubular goods, bars and light structural shapes provides a well rounded output.

OUTLOOK: A strongly entrenched trade position and heavy orders for defense purposes promise to keep Youngstown operating at or above rated capacity for several years to come. The foregoing gains significant because in postwar the company has spent many millions of dollars to enlarge and modernize its facilities, and now plans to expand on an even larger scale. Soon to get under way is a new construction program involving at least $100 million that will double the company's present net property account. Because the company has been granted special permission to amortize $86 million of these expansion outlays over a five year period, about $17 million annually can be deducted from otherwise taxable earnings. This circumstance should aid considerably in building up working capital. Further protection against EPT should be attained by a relatively high exemption base established by high earnings in postwar. The management has been foresighted in acquiring additional coal properties and a 10% interest in vast bodies of iron ore in Labrador. 1950 net earnings per share are estimated at $12 on the recently split common stock; they have averaged better than $9 for four years past. In the 1940-49 period the position of the common was enhanced by retirement of all outstanding preferred and a $50 million reduction in funded debt. If necessary to finance the new expansion program with outside assistance, ample funds can be borrowed in the form of guaranteed V-loans.

DIVIDENDS: Except in two recessive periods, dividends have been regularly paid since 1906. Payments in the current year, including two extras, have equalled $3.50 per share, leaving room for considerable improvement.

MARKET ACTION: Recent price—48¾ compared with a 1950 range of high—53¼, low—45⅝. The current yield is 7.2%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1940	1949 (000 omitted)	Change
ASSETS			
Cash	$ 21,872	$ 52,593	+$ 30,721
Marketable Securities	122	71,482	+ 71,360
Receivables, Net	25,089	30,005	+ 4,916
Inventories	49,434	58,922	+ 10,488
TOTAL CURRENT ASSETS	95,517	213,002	+ 117,485
Plant and Equipment	275,413	326,862	+ 51,449
Less Depreciation	134,496	227,058	+ 92,562
Net Property	140,917	99,804	— 41,113
Investments	12,196	13,424	+ 1,228
Other Assets	2,609	748	— 1,861
TOTAL ASSETS	$ 251,239	$ 326,978	+$ 75,739
LIABILITIES			
Accounts Payable	$ 5,611	$ 11,480	+$ 5,869
Accruals	7,346	10,067	+ 2,721
Accrued Taxes	4,182	24,518	+ 20,336
TOTAL CURRENT LIABILITIES	17,139	46,065	+ 28,926
Reserves	4,487	29,123	+ 24,636
Funded Debt	82,500	30,000	— 52,500
Preferred Stock	15,000	....	— 15,000
Common Stock	105,088	105,088	— ....
Surplus	27,025	116,702	+ 89,677
TOTAL LIABILITIES	$ 251,239	$ 326,978	+$ 75,739
WORKING CAPITAL	$ 78,378	$ 166,937	+$ 88,559
CURRENT RATIO	5.0	4.6	— .4

See inside

The Service of The Magazine of Wall Street Supplies You with The Most Useful Tool For Greater Security and Profit In 1951

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A fortnightly market outlook forecast which provides sound and judicious counsel. It tells you definitely when to buy—when to sell—how much capital to invest—how much cash reserve to hold.

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1951 Preew

Coming In Our J ry

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Of the great elines appraising cts of evaluates t of th ment policy on our economy e new

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Text and graphs will further examine the und facto the production status of individual companies *justm affect all companies regardless of size of earni wer .* movements. This is one of the most important o s we

Business Patter hap

By E. A. Kr Manag

—With Balance Sheet of Favorable and Unfavorable Factors
—Definite Conclusions on Course of Business and Industries in the First Quarter

This special feature tically to shape business tre the conversion to war pr on wi ment . . . consumer i and It weighs the likelih o, of goes into high gear. rt, it ness will operate in ew y

Companies Which Should Mainta heir Dividends in 1951

By Phillip Dobbs, Analyst

—Accompanied by Tables and Text Giving Complete Earnings and Dividend Records

On basis of extensive study and a , we p list of companies which should o diffi maintaining their liberal dividen 1951. clusions are based on such factual nce as tioned excellent operating and ear rospec prospective coverage of dividends b ings, a tax position even under EPT, strong financial status and e t man

New Factor in 1951 orat

—The Varying Impact of Accelerated Amortization orat

By W Beec

Important to Stockholders in
—Steels
—Oils
—Chemicals

As this new factor will y case citing specific examples rates in many cases, how it wi l liqui against continuation of l divide As special write-offs will run into many millions and in stance story will help the investor to understand the real nature o actor a

--The Ultimate in a Business - Investm t

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arket Reappraising Individual Issues

By A. T. Miller

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4. KrManaging Editor

ature ically surveys, appraises and forecasts the factors likely ess trh the months ahead . . . in the light of the effect which war pron will have on our economy as a whole . . . on employ- umer ie and buying power . . . domestic and foreign trade, etc. ikelihoo, of the heralded dip in business as the war program gear. rt, it illuminates the economic setting in which busi- ate inew year.

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Inside Washington

By E. K. T.

Will take up the work of the new Congress . . . political alignments . . . legislation likely to be enacted . . . the progressive harnessing of our economy to the war program . . . and the political and economic aspects of our foreign policy.

1951 orate Earnings Outlook

tion orporate Financial Positions . . . Earnings and Dividends.

By W Beecher

r will ny cases distort income reports for the coming year, this study amples rates how it will tend to reduce substantially stated earnings w it will liquid resources, and yet, how it need not necessarily militate on of l dividends.

d in nstances create unfavorable earning comparisons with 1950, this ture ofactor and avoid being misled into wrong conclusions.

mnt Publication !

–Which Industries O Best Prospects for 1951?

– FOR CAPITAL APPRECIATION – FOR ASSURED INCOME

–With a Special Chart Page of Production Trends in Major Fields

By George W. Mathis

Projecting Basic Forces for 1951 - -

1. A realistic survey and forecast of the many new factors that will dominate business trends and shape security values in 1951. It appraises the varying effect of taxation, (E.P.T.), allocations, shortages, the inevitable trend toward complete mobilization. Our analysts then gauge the influences of shifting industrial, economic and political forces on the individual industries. Of special value to you will be the graphic presentation of the varying cross-currents nationally and internationally as they affect the entire industrial economic picture.

Prospects for Specific Industries - -

Sifting and digesting the above, our analysts will apply the varying influences to individual industries, showing the vast divergence in profit trends created by partial and complete mobilization. In arriving at a practical conclusion, it will answer such questions as: –

– Which Industries Will Maintain Their Position In 1951?

– Which Industries Will be Retarded – Remain Static or decline because of Shortages, Allocations, Taxes?

– Which Industries are best-suited for suitable Investment-income and appreciation – for Dynamic Capital Growth?

–What is the situation and outlook for . . .

–RAILS	–UTILITIES	–STEELS
–OILS	–CHEMICALS	–MACHINERY
–FOODS	–LIQUORS	–AVIATION
–MOTORS	–METALS	–MERCHANDISING
–TOBACCOS	–MOVIES	–EQUIPMENTS
–BUILDING	–TEXTILES	–AMONG OTHERS

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10 Potential Market Leaders For 1951

By The Magazine of Wall Street Staff

2. Our market leader selections are famous for substantial profits made available throughout the years. This year issues we have selected occupy a strategic and dynamic position in industries which should benefit from the expanded rearmament program – and whose financial setup minimizes the effect of E.P.T. on their earnings and dividends. We present for your consideration securities which we believe will be among the market leaders for 1951 and which should, in our opinion, make sizable percentage gains.

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These issues have been selected after careful study and research and the recommendations, in accordance with our policy, are based on the intrinsic value of the stock – viz. strategic position in today's economy – secure financial condition; presented in our original comprehensive and analytical fashion accompanied by charts and statistics.

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With a view to enabling you to realize maximum profits on our 1951 selections, you will be advised of the most opportune time to buy and when to sell through our continuing market service.

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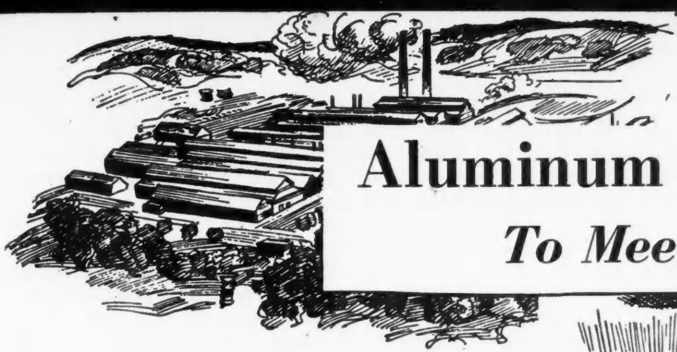


Aluminum Industry Expands
To Meet Defense Needs

By H. S. COFFIN

So many new uses have been developed for aluminum in postwar that consumption of the white metal and its numerous alloys since 1946 has approximately doubled. Compared with any year prior to World War II, domestic usage has expanded several times over. Now for the second time, military requirements are calling for early and large-scale expansion of the industry's capacity. In the circumstances it is appropriate to examine how individual companies in the field may fare under the new program.

While present ingot capacity of the domestic aluminum industry is about 1.4 billion pounds annually, W. Stuart Symington, chairman of the National Security Resources Board, has startled everyone by setting his sights for a longer range increase of two billion pounds and a nearer term addition of one billion pounds. Prospects that the Air Force may be expanded to 84 groups point to a vastly increased demand for alumium, and within the shortest possible time. Meanwhile the accumulation of this essential metal for stockpiling purposes has decidedly lagged and prompt steps to build up the supply will be imperative.

As a first move to curtail civilian consumption of aluminum, the National Production Authority established a regulation that 35% of total production must be allotted for military orders or stockpiling, effective at once. Under pressure from the labor unions, though, who feared the ruling would cause much unemployment, the percentage was temporarily reduced to 20%, but will be increased gradually in subsequent months.

Fortunately for the immediate program, the Government has several standby aluminum plants that will be reactivated; a few others that are privately owned but idle because of prohibitive operating costs could, if subsidizd, become productive again. By making full use of these facilities, it is thought that production can be increased by about 18% by mid-1951, a good start on the larger program but still far short of the goal. Three prominent aluminum producers, however, have made deals with the Government whereby production should be increased by 790 million pounds by 1952 and two new producers may also enter the field.

In order to help the industry to implement these large scale plans, General Services Administration, the Government purchasing agency, has come to the fore with several constructive forms of assistance. (1) Companies that expand their aluminum capacity will receive certification enabling them to amortize the new plants over a five year period, as during World War II, thus substantially reducing operating revenues subject to Federal taxation. (2) To raise the capital necessary for new plants and equipment, perhaps involving half a billion dollars eventually, aluminum producers may get certification to the Federal Reserve Board to provide V-loan guaranties for bank loans. (3) General Services Administration guarantees the sale of all output of the expanded facilities for a five year period, either to industry or to the government stockpile.

Additionally, the Government will agree to lend all possible assistance in supplying the huge amount of electric power consumed in aluminum production, or of absorbing at least a portion of the cost of utilizing more expensive sources of power. To-date and during the late war, practically all crude aluminum has been produced in plants powered with hydro-generated electricity. Because annual consumption of current has involved a prodigious 1.5 billion kilowatt hours, expansion of aluminum output has been severely restricted in peace years.

Use of coal for fuel is of course entirely feasible, but only if aluminum prices were substantially raised. In recent years the industry has begun to use natural gas, and some of the new plants to be constructed undoubtedly will be located adjacent to adequate supplies of this relatively cheap fuel.

The Pattern of Expansion

At the moment, General Services Administration has reached an agreement, as said, with three leading aluminum producers to step up their output, allotting relatively uniform amounts in each case. Aluminum Company of America, the dominant domestic concern, will increase production by 240 million pounds, and both Reynolds Metals Company and Kaiser Aluminum and Chemical Company, (formerly Permamente) by 200 million pounds each. By reactivation of some surplus potlines, the total will rise to 790 million pounds. Additional negotiations under way with Aluminum Reduction Company, Apex Smelting Company and Harvey Machine Company may swell the total to around the presently

projected one billion pounds.

If the need for additional aluminum becomes too acute, the Government presumably will be able to obtain a substantial supply from Aluminum Company of Canada, a subsidiary of Aluminium, Ltd. From this source recently came an offer to furnish 200,000 tons of primary aluminum for the Government stockpile at 16½ cents per pound compared with the current domestic price of 18 cents a pound for pig and 19 cents for ingots. The offer, however, was rejected because only 35,000 metric tons would be delivered in 1951, 65,000 tons in 1952 and 100,000 in 1953, amounts and dates thus failing to meet the emergency requirements. Aside from the price stated, a freight allowance of not to exceed one cent a pound was specified, but no mention of the two cents a pound duty was made, since the Government was the buyer.

A Boon to Future Civilian Markets

It should be realized that the major expansion in aluminum production, while primarily designed to meet military needs on an increasing scale, may also serve to maintain civilian usage at a far more desirable level than otherwise would have been possible. In other words, eventually there may be quite a substantial amount of the white metal available for automobile construction, building purposes, and a long line of such items as pots, pans and ladders. With increasing scarcity of all competing metals and with aluminum prices remaining relatively moderate, it is possible that the industry may benefit considerably in the next few years by capacity operations at increasingly higher levels.

Since the end of World War II, the price of aluminum ingots has advanced only from 15 cents a pound to 19 cents, compared with spectacular rises for copper, zinc and lead, not to mention progressively higher prices for steel. While margins on military business may be narrower than on civilian, the Government logically will have to allow reasonable profits to offset heavy construction costs, abnormally high fuel expenses and increased overhead. Indeed, it is possible that Washington in effect may be paying a premium of several cents a pound to rebuild its stockpile at a satisfactory rate.

To give a clearer picture of how this expansion program may affect the earnings potentials of leading aluminum producers, we will discuss three of these whose shares are listed on the New York Stock Exchange or on the Curb Exchange. On the appended tabulation we present statistical data that our readers may find useful in following our comments. We show present and projected capacity, sales and net earnings for 1949 and part of 1950, dividends, yields and share prices.

In unusually rapid response to the new governmental plan, Aluminum Company of America reactivated an idle plant and produced the first "defense" aluminum within a few days time. Earmarked for the nation's stockpile of strategic materials, this metal is the first of an additional 158 million pounds to be produced annually from Alcoa's standby facilities at Badin, North Carolina, and Massena, New York. Because large amounts of low-cost power are not obtainable in these areas, these two plants have not been profitable to operate, but by the use of high-cost power from adjacent public utility companies they will henceforth be put to capacity usage, with the company and the Government sharing the higher power costs.

Aside from this program, Alcoa plans to construct permanent new capacity capable of producing additional metal at an annual rate of 240 million pounds. This plan involves enlarging Alcoa's smelting facilities at Point Comfort, Texas, where plenty of natural gas is available for fuel, and construction of a new aluminum reduction plant at a site still to be selected. As soon as possible, accordingly, the company's over-all output of metal could rise to better than one billion pounds per year. It is said that Alcoa wished to expand still further, but that for competitive reasons permission was not obtainable, at least for the time being.

Since Alcoa fabricates at least as much metal as it produces and indubitably will sell large quantities of sheets and special forms in connection with the Defense Program, it is difficult to appraise the company's potentials for expanding sales and earnings. Based on metal values alone, though, it seems as if a volume gain of at least $80 million is in prospect within a year or so, and perhaps a considerably larger one.

Projecting Earnings Potentials

If the net profit margin of 7% attained in 1949 could be maintained, annual earnings might expand by about $5.6 million or $1.10 per share. Margins in 1949, though, were narrowed by power shortages, strikes and a temporary recession in demand, so that net earnings declined in that year to $4.45 per share compared with $7.67 in 1948. In the current

Statistical Data on Aluminum Companies

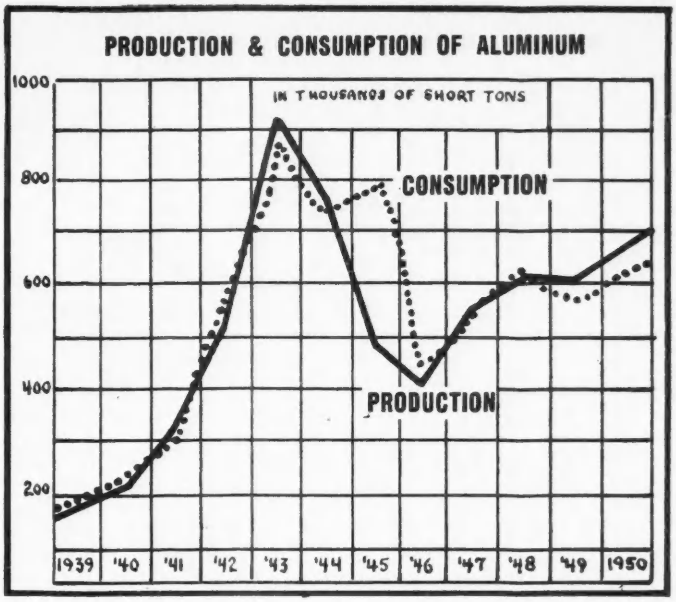
	Annual Ingot Capacity Estimated Present (millions of Pounds)	After Projected Increase (millions of Pounds)	1949 Net Sales ($ million)	1949 Net Per Share	1950 9 months Net Sales ($ million)	1950 9 months Net Per Share	Div. 1949	Indicated Div. 1950	Yield*	Recent Price	Price Range 1950 High Low
Aluminium Ltd.	1.124	—	$199.4	$7.26	$162.2[1]	$7.01[1]	$2.60	$3.45	4.3%	79½	83¾—45⅞
Aluminum Co. of Amer.	730	970	347.1	4.45	—	—	2.00	2.00	2.8	70½	73¾—51½
Reynolds Metals Co.	440	640	131.8	4.20	113.7	5.44	1.10	1.20[2]	2.8	42	43¼—20½

*—Based on indicated 1950 dividends.
[1]—Canadian Currency.
[2]—Plus 10% stock dividend.

year in which prices have firmed and demand has notably increased, it is estimated that net earnings of about $7.50 per share may be expected, although Alcoa issues no interim reports to bear this out.

Looking ahead to the impact of prospective excess profits taxes, it is possible that accelerated amortization may exempt at least $10 million of Alcoa's operating income from this impost. At today's cost, the minimum construction expense of a new aluminum plant is around $50 million, 20% of which would be chargeable against earnings before taxes. The company is fairly well sheltered against EPT, as in 1949 it would have been fully exempt from this tax by a margin of nearly $13 million, although the picture may look different when 1950 figures can be studied.

In any event, dividends should continue at an annual rate of $2 per share. An exceptionally strong financial position, combined with retained earnings and increasingly large allowances for depreciation and depletion, could comfortably permit heavy outlays for new construction without much recourse to further borrowing.



Reynolds Metals Company, with a present rated capacity of about 440 million pounds of aluminum metal, seems likely to expand output to 640 million pounds. By increasing production at the Jones Mill, Arkansas, plant, the company hopes to have 50,000 additional pounds of production available early next year. Reynolds also proposed to build a new plant with annual capacity of 150,000 pounds somewhere in the Southwest near adequate supplies of natural gas. This important facility may be in operation in the forepart of 1952. The company, like Alcoa, is well situated to finance its expansion program, but if deemed necessary, ample V-loans can be obtained.

Reynolds has forged ahead impressively in the last decade to attain second rank in an industry dominated by one company for more than half a century. Prior to announcement of the new aluminum program, the company had completed a major expansion program and was ready to reap the benefits of enlarged output and maximum operating efficiency. Among the ten year achievements of Reynolds has been an increase in physical assets from $10.6 million to $151 million and a rise in working capital from $4.6 million to $44.7 million. The company has also acquired valuable bauxite deposits in Jamaica that should permit substantially integrated operations.

Has Sheltered Tax Position

In nine months of 1950, net earnings of Reynolds Metals were reported as $5.44 per share, after allowing for increased and retroactive tax rates. For the full year, approximately $8 a share may be earned unless pared by retroactive excess profits taxes. The company is in a relatively favorable position as to EPT; its heavy capital investments could create a sheltered base if desired, and earnings in the 1946-49 period were large enough to provide a sizeable EPR exemption as an alternative.

In order to build up working capital, dividend policies of the company have been ultra-conservative. Despite Reynold's dynamic growth in ten years, the number of common shares outstanding has been increased only twice through payment of 10% stock dividends, the latest in the current year. Considerable leverage is afforded the common shares by a long term debt of $103 million and $4.95 million 5½% convertible preferred. Future dividends could easily exceed the $1.20 per share paid in 1950.

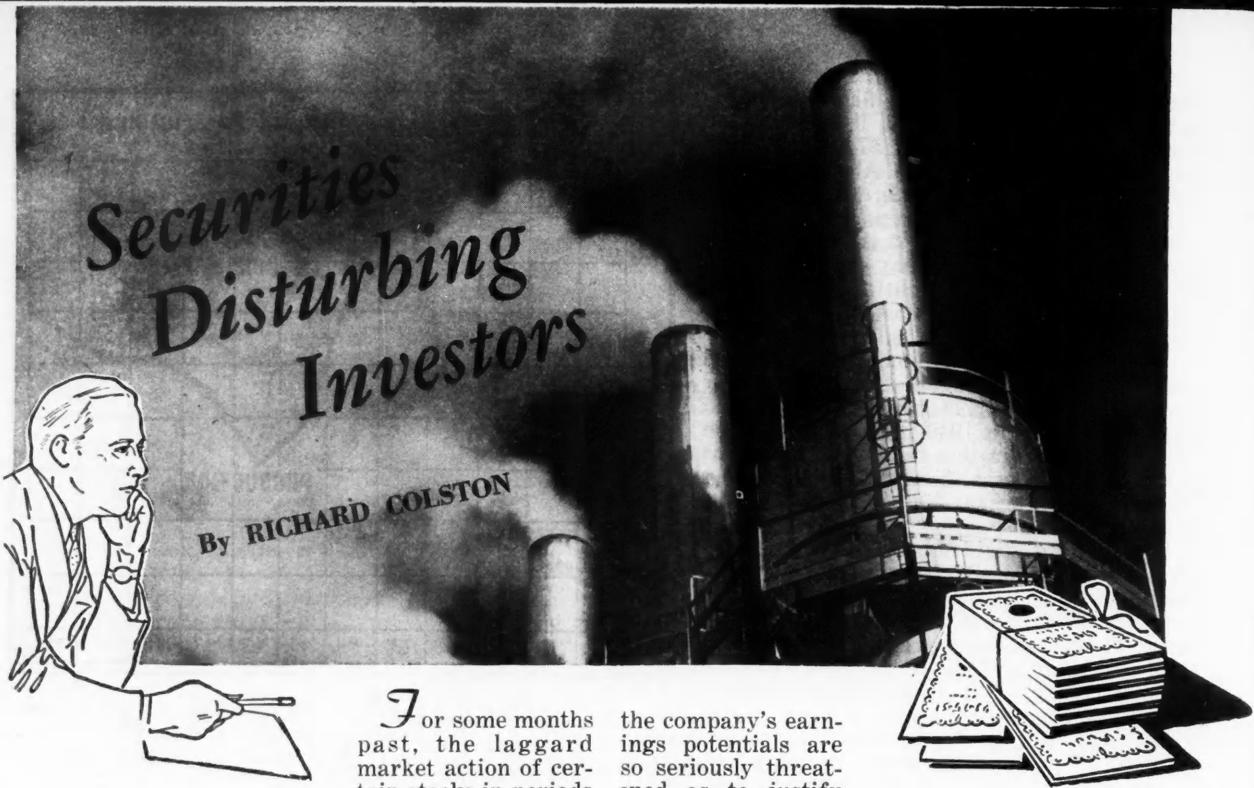
Aluminium Limited whose subsidiary, the Aluminum Company of Canada, Ltd., has an ingot capacity of at least 335,000 metric tons of primary metal, will continue to provide constant competition for leading American producers, despite a two cents per pound duty. The parent concern does a worldwide business, conducting operations in 28 foreign countries. In terms of tonnage, about two-thirds of output are represented by primary ingot and alloys, and the remainder by semi-fabricated items such as sheets, wire and tubing.

Canadian Expansion

In the past several years, Aluminium, Ltd. has spent more than $80 million (Canadian) to expand the business, including widespread activities to expand production of bauxite ore in a number of foreign countries. In view of world conditions, the company plans to expand output of ingots in Canada, where plenty of cheap company-owned hydro-electric power is available.

Aluminium Ltd. has marked operating efficiency, to judge from a net profit margin of 13.5% in 1949, a year when a good many handicaps were experienced. In the current year, sales for nine months advanced to $162.2 million for a gain of about 5% over the same period a year earlier, with net earnings rising to $7.01 per share compared with $6.07 a year earlier. At least $9 per share should be earned in all of 1950, as of course this Canadian company has no problem of U. S. taxes to contend with.

Dividends have been regularly paid since 1939. During 1950, a larger share of net income has been retained in the business, although the quarterly rate was raised to 75 cents per share in September and an extra of 75 cents (*Please turn to page* 347)



Securities Disturbing Investors

By RICHARD COLSTON

For some months past, the laggard market action of certain stocks in periods when the general list has displayed strength has created uncertainty among their holders. This feeling has been intensified when the price of an equity has actually run counter to the broad trends. In the absence of informed opinion, or data on which to base appraisals of the situation, investors are confused—should they retain these stocks, sell them or acquire additional shares to average up? It seems appropriate, accordingly, to discuss three equities concerning which we have received a good many inquiries of late.

Commercial Credit Company

Among a number of stocks presently quoted close to their low for 1950 is Commercial Credit Company, recently selling at 45¼ compared with this year's high of 67⅜. As might easily be conjectured, the prospect of decreasing activity by this concern under credit curbs now in force, and because the number of consumer durables widely sold on time payments is due to shrink incisively, has exerted considerable psychological influence on the market action of these shares. The question for which some of our subscribers may be seeking an answer is whether the company's earnings potentials are so seriously threatened as to justify current lower quotations for the shares, or whether their price level may have over-discounted the return of this specialized industry to more normal conditions in its field. For three years past, the business has boomed.

That a substantial decline in instalment financing of automobile sales is approaching cannot be denied, although at this time it is impossible to forecast the rate. Much will hinge on the amount of steel that can be allocated to the automotive industry after military needs are met. Output of cars in 1951 may well shrink by 25%, at least, and due to the more restrictive terms of Regulation W, an increasing portion of them may be purchased for cash.

It should be realized, though, that the decline in the volume of automotive instalment paper will be from a record high base, and that it may level off at a point that in average years would have seemed quite satisfactory. Textile industry paper that adds to the revenues of this company may remain in ample supply for some time to come, and the same could apply to instalment notes of numerous manufacturers likely to operate near capacity during defense activities.

The revenues of Commercial Credit Company also stem from its insurance company subsidiaries whose outlook for the coming year is encouraging, and whose operations in the current year have been profitable. A third important source of income is from the company's seven manufacturing subsidiaries, practically all of which should continue to fare well under the military

Commercial Credit Co.

Quarterly Income Statistics

	1950			1949		
	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30
Gross Receivables Purchased (000 omitted)	$697.829	$560.193	$431.528	$495.300	$559.977	$496.566
Gross Insurance Premiums (000 omitted)	11.043	11.482	12.418	—	13.506	14.133
Net Sales Mfg. Subsidiaries (000 omitted)	22.446	20.711	16.406	—	18.563	18.848
Net Before Taxes	—	9.435	8.600	—	8.252	7.055
Net Income	5.476	5.299	5.338	5.195	4.713	4.318
Net Per Share	2.40	2.33	2.42	2.70	2.43	2.22

economy now shaping up. Their output includes such essentials as pork products, and equipment for the oil, paper and chemical industries, not to mention heavy presses, tools and castings for a wide range of manufacturers.

The outlook for satisfactory demand for all of these specialties is on the bright side, although increased taxes will tend to pare profits from their manufacture. In the nine months ended September 30, 1950, net income of $4.6 million by the insurance subsidiaries and $3 million by the manufacturing units totalled $7.6 million, not much less than the $8.4 million earned by finance activities. Hence the latter revenues could shrink considerably without too drastic effect upon over-all net income.

The main thing to consider about Commercial Credit Company shares presently is the outlook for dividend stability. For at least another year there is little to suggest that payments of $1.20 per share quarterly will not continue. This surmise is based not so much on the fact that estimated earnings of around $9.50 per share for 1950 have amply covered the annual dividend rate of $4.80, as upon the assured prospect that for many months to come, the company will continue to report high level earnings. This because of present record holdings of instalment paper on which earnings will come only as periodical payments are made. As of September 30, for example, unearned income from the foregoing source was reported as $29.9 million, much of which would flow in during the first half of 1951, or even later.

Since Commercial Credit has consistently operated at a profit for several decades and, with the exception of one year, has paid dividends regularly since 1913, the shares have considerable investment merit. In the circumstances, while the current yield of 8.4% may not endure permanently, a somewhat lower return by normal standards might be considered satisfactory. At a recent price of about 45 for the shares, the annual dividend rate could be cut to $2.22 per share and yet yield 5%. As even in the difficult period of the late war, payments averaged close to this, it is logical to assume that no less can be expected in the next few years by the most conservative estimate. All considered, we believe these shares should be held and that their holders need have little concern over their current market position, especially as the company is relatively well sheltered against EPT.

Bayuk Cigars

Quarterly Income Statistics	1950			1949		
	Sept. 30	June 30	Mar. 31	Dec. 31	Sept.30	June 30
Net Sales (000 omitted)	$8.189	$7.644	$6.332	$7.886	$8.041	$8.267
Net Before Taxes (000 omitted)	.454	.250	.279	—	.282	.250
Pre-Tax Margin	5.5%	3.2%	4.4%	—	3.5%	3.0%
Net Profit (000 omitted)	.248	.189	.5	.405	.182	.153
Net Profit Margin	3.0%	2.5	.09%	5.1%	2.2%	1.8%
Net Per Share	.32	.24	.01	.51	.23	.20

Bayuk Cigars, Inc.

This manufacturer of popular priced cigars over a long period of years exhibited relatively stable earning power until 1949 and 1950, when the business proved too be much less profitable. Bayuk shares recently sold at 10⅛ compared with a 1950 range of high—13½, low—9½. At their peak in 1946, they sold as high as 31⅝. As 1950 is the fourth successive year in which annual dividends have decreased, investors apparently are wondering where the downtrend will end.

While Bayuk Cigars in the course of many years has established a strong trade position in the low to medium-priced field, especially through promotion of its popular "Phillies" brand, rising prices of tobacco in the past two years have tended to pinch the company's operating margin. Intensified competition at the same time has precluded the possibility of adjusting prices upward to offset increased manufacturing costs. Whereas the company during two decades built up its reputation largely through sales of five cents cigars, more recently it has been forced to rely on items priced from 10 cents to 12 cents, a range in which competition from numerous other tobacco concerns is considerable. Under foreseeable conditions, it looks as if little or no early relief from this operating handicap can be expected.

In order to partially overcome the disadvantage, however, the management in 1949 introduced Phillies "Fresh Packs," considered as a major development in the cigar industry. This is a triple sealed package that assures freshness for an indefinite period. Each cigar is sealed in a cellophane wrapper, each five are packed in a pocket container that is also sealed, and then five of these packs are sealed in a third cellophane wrapper. In the current year, Bayuk has also expanded its promotional activities to sell smaller sized 5 cents cigars.

As a result of these moves, quarterly volume during the first nine months of 1950 showed consistent but only moderate improvement, and pretax margins widened somewhat although an average of only 4.4% on sales of 22.1 million was too narrow to be very satisfactory. After allowing for retroactive income taxes applicable to operations for nine months, net earnings equalled 57 cents a share compared with 65 cents the year before. With probably improved sales in the final holiday quarter, it is possible that about 90 cents may be earned for full 1950.

In the circumstances, it (*Please turn to page* 348)

Allied Mills

	Quarter Ended September 30 1950	— Fiscal Years Ended June 30 — 1950	1949
Net Sales (000 omitted)	$19.350	$70.996	$74.774
Operating Profit (000 omitted)	—	4.818	4.199
Operating Margin	—	6.8%	5.6%
Net Profit (000 omitted)	.465	2.427	2.369
Net Profit Margin	2.4%	3.4%	3.1%
Net Per Share	.59	3.06	2.96

FOR PROFIT AND INCOME

News

If news factors preclude "the traditional year-end rise"—which is measured from December lows to highs of the first half of January—it will be the first instance thereof in the 53-year history of the Dow-Jones industrial average. But it doesn't look that way at this writing. There has been such a rise, or rally, in 52 of the 53 years. The exception was 1926, when, in the course of the greatest of all bull markets, the high of January 2-15 was a hair under the previous month's low. That was a fluke, with no special news to explain it. There was a year-end rise in each year of the two World Wars. It averaged nearly 10% in the First World War; a little over 6% in the second. A thing that nobody can explain is that year-end rises averaged larger in the pre-1913 period—when there was no income taxes and, therefore, no tax selling to be absorbed in December—than over the last decade, when income taxes have been sky-high. As we have noted before, traders rarely make money playing for the year-end rise, and losses in trying to do so are quite possible. The average year-end move is fairly small; and neither the timing of the December low nor that of the January 2-15 high can be anything more than a matter of guesswork.

January

Regardless of the seasonal tendency around the year-end period, January as a whole has been a rather colorless month in market results, with relatively few exceptions. For example, out of the last 30 years there has been only insignificant net change—less than 2 points or so in the industrial average—in 12 Januarys; some rise in 11; and some decline in 7. There is, obviously, no "tendency". In comparatively recent years the most notable gains—notable only because the others were so nominal—were 3.24 points in 1947 and 6.18 points in 1943. The worst net decline in recent years was in 1941, with a fall of about 7 points. January was a good rally month in the bad bear-market years 1930 and 1931; a reactionary month in the glowing bull-market year 1928. Like most any other month in the year, it can be highly unreliable for those concerned with trying to out-guess the stock market.

Soft Drinks

Coca Cola finally got tired, as this column suspected it might, of holding the nickel price per bottle, while costs pressed ever upward. All that the policy accomplished was to deflate earnings pretty much throughout the trade, yet without reducing competition. The fact that Coca Cola has now moved to a 6-cent price implies that it, and competitors, can readily make any further adjustments required by costs, since demand is no great problem. The boost from 5 cents to 6 cents is psychologically big. Future ones from 6 to 7 cents, or 7 to 8 cents, will attract scant attention. The stocks have rallied appreciably from recent lows, but remain far under their 1946 bull-market highs. Coca Cola is the only one of them with investment quality. Other "Big Board" issues are

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1950	1949
Alden's Inc.	40 Weeks Nov. 3	$3.35	$ .81
Canada Dry Ginger Ale	Year Sept. 30	1.56	1.04
Allied Stores	Oct. 31 Quarter	1.94	1.39
Distillers Corp.—Seagrams	Oct. 31 Quarter	1.95	1.31
Macy (R. H.) & Co.	13 Weeks Oct. 28	1.39	.64
General Shoe Corp.	Year Oct. 31	5.04	3.14
Denver & Rio Grande Western R.R.	10 Months Oct. 31	7.45	4.70
U. S. Freight Co.	Sept. 30 Quarter	1.16	.67
Caterpillar Tractor	11 Months Nov. 30	8.18	4.46
Chesapeake & Ohio Ry.	11 Months Nov. 30	4.25	1.58

Canada Dry, Dr. Pepper, Nehi and Pepsi-Cola. The last-named is generally the speculative leader of the group.

Rail Equipments

The picture for rail equipments, which had long been one of the more depressed groups in the market, changed strongly for the better, of course, when even the first version of the defense program loomed up after Korea. This industry made much of the "heavy stuff" in World War II; and will do so again. The stocks have risen a good deal from 1950 lows, but as a group would have to rise by another 50% or so to equal their 1946 bull-market high. The industrial average has long been above its 1946 peak, and still is. We spoke favorably of American Brake Shoe in this column some time ago. This stock has come through nicely, aided by a $1 year-end extra dividend which brought 1950 payments to $3. Westinghouse Air Brake, now around 32, continues to look like a good investment value, considering the extraordinary dividend record over the years, the uncommonly strong finances, the relatively favorable earnings outlook under higher taxes, and the current yield of 7.8% from the $2.50 in 1950 dividends. Among the speculative issues, American Locomotive – whose regular lines are now doing well and which will figure importantly in war orders–should be among the market favorites. It is currently around 19½, compared with 1950 low of 13¼ and 1946 high of 44½.

Discounting

As usual, the market has done a good job in discounting the coming semi-war or war economy–but probably better on the buying side of war-favored stocks, than on the selling side of peace stocks. Oils have been given top rating for obvious reasons, since the industry has just about everything in its favor. The leading coppers have had a big play, aircrafts a lesser one. The greatest value attaches to stocks best suited to war or peace, like oils; the least to war stocks with dim peace-time prospects. This column thinks most aircrafts belong in this class, although speculative demand may well take them higher. The more appealing stocks are, the higher they are, relative to past levels and relative also to the prices of less favored stocks. Oils are highly inviting in every respect–except current prices. Since everybody loves them and prices are high, dynamic further rise is most unlikely. At this writing the general list is down only some 5% or so from its 1950 high, while the automotive group is down about three times as much, video stocks over four times as much, and building materials about twice as much. These are all "war-economy casualties." They have partly discounted coming adversity – measured by earnings and dividends–but hardly all of it.

Amortization

At least from the stockholder's point of view, the "certificate of necessity" business is going to complicate company earnings reports and balance sheets no end. This is the official go-ahead that will permit amortization of specific new plant-equipment outlays in a 5-year period. For instance, Armco Steel has been granted "certificates of necessity" for about $154 million of new facilities. The write-off out of taxable earnings will come to nearly $31 million a year, or not so very far from $8 a share, which is more than the company ever earned a year prior to 1950's estimated $12 a share. The expansion of facilities probably will be partly self-financed, partly financed on low-rate bank loans. In any event the net effect will be to make stated earnings lower than they would otherwise have been, and yet to swell the cash available. A curious effect will be an actually greater ability to maintain any prevailing level of dividends, while stated earnings shrink. Another effect, important in an era of long-term inflation, is that productive assets are importantly expanded, but paid for out of a fast amortization.

Chemicals

It is hard to explain, on any normal basis, the recent outstanding strength of leading chemical stocks. Like all other "growth" companies, these companies would seem to be hit relatively hard by any variation of the excess profits tax so far considered. The only special consideration for "growth" companies applies to units far smaller that the popular "Big Board" issues. Maybe a good part of the answer has to do with the "certificate of necessity" business. All the leading chemical concerns have important expansion projects or potentials. If this can be written off at 20% a year, expansion becomes all the more worthwhile; and the companies retain their "growth" status, despite an EPT.

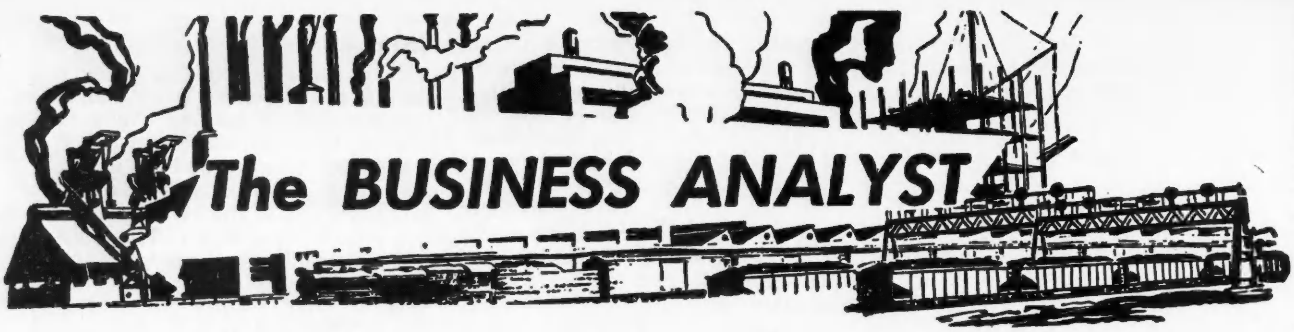
Tax Shelter

There is a mistaken impression among quite a few people that the special depletion allowance for tax purposes applies to all extractive lines and is uniform, thus providing a major degree of tax shelter. It does apply to the major extractive lines–the ones in which there is most investment interest –but not to a number of lesser items. And the rates vary widely. Producers of oil and natural gas are most favored, with a special allowance of 27½%. It is 23% for sulphur. For the "main metals"–and that includes copper, lead and zinc–it is only 15%. For coal it drops down to 5%. The leading copper stocks have not "gone to town" on account of the relatively small degree of tax shelter provided by the depletion allowance. The main things in their favor are: (1) assured capacity demand; (2) the virtual certainty that copper prices, when frozen, will be at or near present

(*Continued on page* 353)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

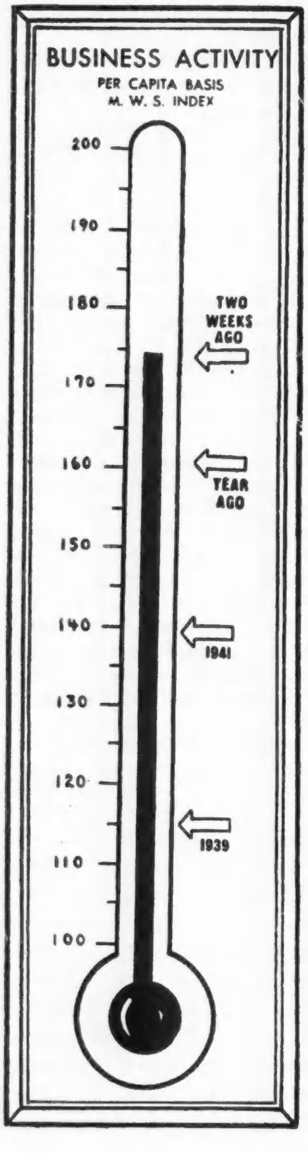
		1950	1949
Lake Shore Mines	9 Months Sept. 30	$ .43	$ .59
Oklahoma Natural Gas Co.	12 Months Oct. 31	2.96	3.20
Clinton Foods	9 Months Sept. 30	2.28	3.06
Lane Bryant	9 Months Oct. 31	1.34	1.54
Columbia Pictures	13 Weeks Sept. 30	.33	.40
Swift & Co.	Year Oct. 31	2.73	4.36
Kansas City Southern Ry.	10 Months Oct. 31	9.02	10.71
Ainsworth Mfg. Co.	Sept. 30 Quarter	.25	.55
Mergenthaler Linotype Co.	Year Sept. 30	8.01	14.23
Great Northern Ry.	10 Months Oct. 31	4.83	4.93



What's Ahead for Business?

By E. K. A.

The new "national emergency" rearmament program, while implying a considerable speeding up of the defense effort, still is far from an absolutely all-out mobilization of national effort. On basis of official pronouncements to - date, the policy is still one of a "good deal of butter though a good many guns." This concept could change of course under the pressure of future events and therefore must be considered anything but rigid. In the meantime we might add that we consider it a sensible approach, for there is no point in rushing beyond the practically possible.



What use would it be to draft millions of men as long as neither training facilities nor weapons are available. And what sense would drastic restriction of the civilian economy make as long as arms orders cannot take the place of civilian business. The simple fact is that no matter how urgent the task, it takes a minimum of time to get ready for it and that minimum cannot be shaved. But within the practically possible the rearmament time table certainly will be stepped up and as it progresses, so will the march of controls. There will be nothing half-hearted about it. We shall know that business as usual is no longer possible. If transition is pushed too fast, however, we can be sure that it will be not nearly as smooth as had been expected a few weeks ago.

With the intensification of the arms effort, chances of a business setback in the first quarter of the new year are further minimized. The greater prospect now is a production plateau for a few months rather than a short dip, since whatever transitional slack may appear may be taken up almost automatically.

Industrial production in terms of the FRB index has been estimated at 214 for November, down one point from the October figure, but the decline was caused by weather conditions rather than anything else. While the drop was small it follows a period during which industry had registered only small month-to-month production gains. This was the very levelling-out process which previously was thought to end up in a moderate dip. Under the new conditions, something like 215 or thereabouts in the FRB index could well consititute the transitional plateau referred to. The exact figure is no longer of any great importance, however. A quick rebound in the second quarter is a virtual certainty.

In the light of these prospects, talk of a "conversion recession" among retailers because of transitional unemployment doesn't sound convincing. Such disemployment will be neither large nor will it last long; in fact it may hardly make a dent in view of industry's tendency to hold on to skilled labor under any conditions because of fear they might otherwise be permanently lost to them. That sort of thing happened during the last war and is likely to repeat itself now.

Additionally, large raw materials stocks will enable many companies to cushion the effects of cutbacks, main presumptive cause of transitional disemployment. Manufacturers inventories at the beginning of November came to $31.4 billion, up almost one billion in a month. At the same time, new orders went up faster than sales, so order backlogs rose by another $1.7 billion to an aggregate $35.5 billion.

To Curb Inflationary Lending

While tighter credit controls have checked a run-away credit boom, inflationary bank lending remains a matter of concern. Borrowing by business keeps climbing. At latest report, as of December 6, outstanding business loans stood at a record $17.2 billion—up $3.7 billion since fighting started in Korea. And total bank loans were at $30.9 billion, a rise of $5.8 billion over a year ago. It stands to reason that no matter what credit curbs can do to checkrein the credit boom, it couldn't possibly provide anywhere near an offset to the commercial lending boom. Steps to check the latter are long overdue if inflation is to be fought realistically.

At long last, something will perhaps be done. The Federal Reserve Board, long anxious about it, is finally getting leading bankers together to explore the possibility of making a joint agreement restricting inflationary lending. What's needed of course is not so much "exploation" for there seems very little to explore. What's needed is an agreement-period!

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT — Under leadership of the "War babies," all three of our major common stock indexes advanced sharply during the fortnight ended December 16, with the low priced stock index and 5 of the 46 group indexes establishing new highs for various periods, as tabulated on the second page following. For the first time since 1946, the aircraft and textile groups climbed to all-time highs. High grade rail bonds and the bank-eligible Victory 2½s rose fractionally, the former to the best average level in 8 weeks; but the restricted Victory 2½s held unchanged. Moving counter to the trend were New York Bank stocks—lowest in 6 weeks; high grade corporate preferred stocks—lowest since August 5; and foreign government dollar bonds lowest since September 9. During the fortnight ended December 6, weekly reporting member banks sold an additional $385 million of Government securities to expand commercial loans by a like amount.

There was also a net increase of $137 million in other loans and investments, with a like expansion in total earnings assets. Demand deposits rose $606 million, make a total expansion of $2.48 billion since June 30. Subnormal demand for the Treasury's recent issues of one-year certificates obliged the Federal Reserve banks to take $1,468 million of the offering. The net outcome after partially offsetting sales of other Government securities was an increase of $960 million in the System's holdings of U.S. securities. Largely in consequence of this, member bank reserves rose $666 million during the fortnight. Yet the Federal continues to scold commercial banks for expanding credit, which is tantamount to admonishing "Do as I say; not as I do." With the Treasury balance as of December 13 down close to the $3.5 billion considered a prudent minimum, new financing will probably be called for before long. It remains to be seen whether this will be of inflationary or non-inflationary character. Probably the former; since the Administration has thus far given only lip service to effective anti-inflation action. Meanwhile, however, the budget deficit has been rduced $811 million, and the Federal gross debt $212 million, during the current fiscal year to Dec. 13.

———o———

TRADE—Department stores sales in the fortnight ended December 9 averaged only fractionally above the corresponding period last year, compared with a 5% increase for the year to date; but merchants look for a sharp upturn in the final fortnight before Christmas. Our foreign trade went back into the red in October, showing an import surplus of $17 million, contrasted with an export surplus of $53 million for September.

———o———

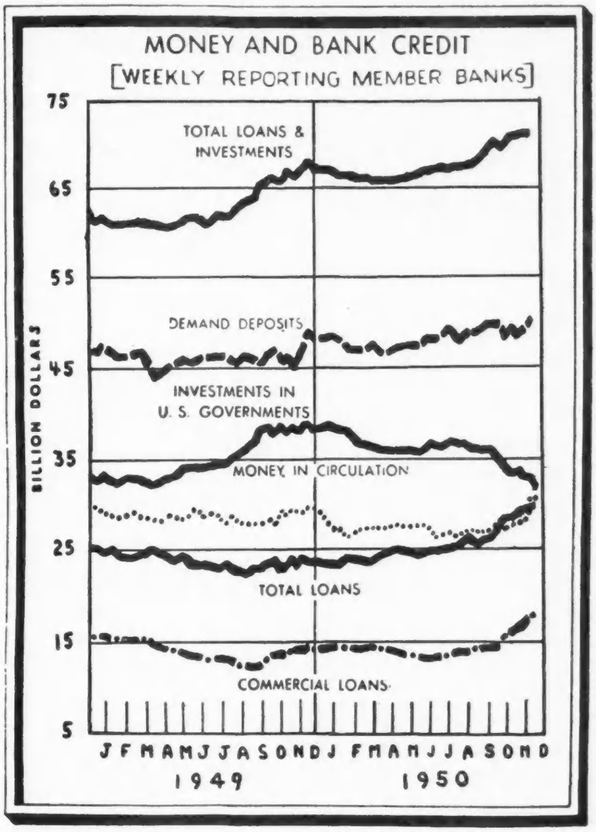
INDUSTRY—An inflationary rise in prices beyond anything this country has ever experienced is bound to result from failure to clamp realistic curbs upon bank credit, wage increases and Government spending for non-defense purposes. Measures and plans adopted to date will prove to be about as effective as sitting on a boiler's safety valve while feeding more and more fuel into the furnace.

———o———

COMMODITIES—Spot and futures indexes advanced sharply to new all-time highs during the fortnight ended December 16.

———o———

Swift recovery from storm damages during the week ended December 9 lifted the nation's physical volume of BUSINESS ACTIVITY sharply to a level 10.3% above last year at this time, though still nearly 2% below the all-time high touched two months ago, owing mainly to material shortages here and there.



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For the month of November, this publication's BUSINESS INDEX rose fractionally to 207% of the 1935-9 average—0.5 point ahead of October, and 10.4% above the corresponding months of last year. On a per capita basis, the index for November registered 175.6% of the 1935-9 average, compared with 176.3 in October, and 159.5 for November, 1949.

* * *

Business activity measured in dollars, known as the GROSS NATIONAL PRODUCT, expanded during the third quarter to a record annual rate of $284 billion—3.2% ahead of the second quarter and 14% above the corresponding quarter of last year. No small part of these increases has been due to rising prices and wages though the physical volume of business activity has also been expanding sharply.

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	Nov.	1.56	1.52	1.20	1.55
Cumulative from mid-1940	Nov.	404.4	402.8	389.6	13.8
FEDERAL GROSS DEBT—$b	Dec. 13	256.9	256.9	256.9	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	Dec. 6	50.4	50.5	47.7	26.1
Currency in Circulation	Dec. 13	27.8	27.7	27.7	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Dec. 6	10.21	9.92	8.40	4.26
93 Other Centers—$b	Dec. 6	15.51	15.21	12.47	7.60
PERSONAL INCOMES—$b (cd2)	Oct.	233	231	205	102
Salaries and Wages	Oct.	156	154	136	66
Proprietors' Incomes	Oct.	46	45	40	23
Interest and Dividends	Oct.	19	21	20	10
Transfer Payments	Oct.	12	11	12	3
(INCOME FROM AGRICULTURE)	Oct.	21	20	19	10
POPULATION—m (e) (cb)	Nov.	152.7	152.5	150.2	33.8
Non-Institutional, Age 14 & Over	Nov.	111.2	111.1	110.1	101.8
Labor Force	Nov.	65.4	65.4	64.3	57.5
Military	Nov.	1.94	1.73	1.44	1.89
Civilian	Nov.	63.5	63.7	62.9	55.6
Unemployed	Nov.	2.2	1.9	3.4	3.8
Employed	Nov.	61.3	61.8	59.5	51.8
In Agriculture	Nov.	7.6	8.5	7.9	8.0
Non-Farm	Nov.	53.7	53.3	51.6	43.8
At Work	Nov.	52.3	51.7	50.1	43.2
Weekly Hours	Nov.	41.1	41.5	40.0	42.0
Man-Hours Weekly—b	Nov.	2.15	2.15	2.06	1.82
EMPLOYEES, Non-Farm—m (lb)	Oct.	45.8	45.7	42.6	37.5
Government	Oct.	6.0	6.0	5.9	4.8
Factory	Oct.	13.1	13.0	11.4	11.7
Weekly Hours	Oct.	41.4	41.0	39.7	40.4
Hourly Wage (cents)	Oct.	149.7	148.0	139.2	77.3
Weekly Wage ($)	Oct.	61.98	60.68	55.72	21.33
PRICES—Wholesale (lb2)	Dec. 12	173.4	172.7	151.2	92.5
Retail (cdlb)	Oct.	193.9	192.6	185.6	116.2
COST OF LIVING (lb3)	Oct.	174.8	173.8	168.5	100.2
Food	Oct.	209.0	208.5	200.6	113.1
Clothing	Oct.	193.4	190.5	186.8	113.8
Rent	Oct.	125.0	124.8	171.5	107.8
RETAIL TRADE—$b					
Retail Store Sales (cd)	Oct.	12.08	12.50	11.13	4.72
Durable Goods	Oct.	4.22	4.46	3.60	1.07
Non-Durable Goods	Oct.	7.86	8.04	7.53	3.65
Dep't Store Sales (mrb)	Oct.	0.88	0.91	0.84	0.42
Retail Sales Credit, End Mo. (rb2)	Oct.	11.58	11.60	8.86	5.46
MANUFACTURERS'					
New Orders—$b (cd) Total	Oct.	24.6	23.6	17.2	14.6
Durable Goods	Oct.	12.1	11.5	6.9	7.1
Non-Durable Goods	Oct.	12.5	12.1	10.3	7.5
Shipments—$b (cd)—Total	Oct.	22.8	21.3	17.0	8.3
Durable Goods	Oct.	10.3	9.5	6.6	4.1
Non-Durable Goods	Oct.	12.5	11.8	10.4	4.2
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	Sept.	55.9	53.9	52.6	28.6
Manufacturers'	Sept.	30.4	29.6	29.1	16.4
Wholesalers'	Sept.	9.7	9.5	9.1	4.1
Retailers'	Sept.	15.8	14.8	14.4	8.1
Dept. Store Stocks (mrb)	Sept.	2.5	2.2	2.2	1.4
BUSINESS ACTIVITY—1—pc	Dec. 9	174.7	173.5	161.3	141.8
(M. W. S.)—1—np	Dec. 9	206.3	204.0	187.3	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 339)

Material shortages in a few instances were mainly responsible for a dip of about 150,000 between mid-October and mid-November. Similar influences, plus an influx of women into the labor market to earn extra money for Christmas led to a rise of 300,000 in employment which, however, was still 1,169,000 smaller than a year earlier.

* * *

Added to the inflationary fuel of mounting expenditures for defense, with consequent Government deficit financing, will be sharply stepped-up private outlays next year for plant and equipment, which are estimated at a record $4.8 billion for the first quarter, or 30% above the first quarter of 1950. Total CAPITAL EXPENDITURES for 1950 are expected to be $18.1 billion, about the same as in 1949; next year's total is expected to top the 1948 record of $19.23 billion.

* * *

Though only 85,000 new one and two family houses, upon which credit terms have been tightned sharply, were started in November—18,000 units under October, and even 10,500 below November, 1949—expenditures on new non-farm DWELLING UNITS in November, including apartment houses and co-ops, showed a barely more than seasonal 10% drop from October, and were still 35% above November of 1949. Expenditures on all types of construction in November were nearly 23% ahead of November, 1949, and only 8% behind October.

* * *

Barring serious material shortages, credit curbs alone will probably not make such a big dent in CONSTRUCTION volume as builders fear. When people set their minds upon buying something, ways are usually found to finance the purchase. For example: at present writing, there is a big upsurge in new co-op apartment projects, notably in the New York City metropolitan area. Credit restrictions have not yet been slapped upon apartment house construction, but may be before long. Also, the Administration is readying a request to Congress for a new $1 billion housing program, restricted to designated defense areas not yet specified.

* * *

RAILROAD traffic and earnings, as in World War II, will probably continue at a high level for some years to come. Owing to the strategic importance of this industry, the I. C. C. will doubtless authorize sufficient rate increases from ime to time to

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—1—np (rb)	Oct.	215	212	166	174
Mining	Oct.	167	163	112	133
Durable Goods Mfr.	Oct.	260	252	175	220
Non-Durable Goods Mfr.	Oct.	195	194	177	151
CARLOADINGS—t—Total	Dec. 9	767	740	669	833
Manufactures & Miscellaneous	Dec. 9	380	368	327	379
Mdse. L. C. L.	Dec. 9	80	78	81	156
Grain	Dec. 9	51	55	48	43
ELEC. POWER Output (Kw.H.) m	Dec. 9	6,909	6,716	5,881	3,267
SOFT COAL, Prod. (st) m	Dec. 9	11.4	9.3	9.6	10.8
Cumulative from Jan. 1	Dec. 9	474	463	413	446
Stocks, End Mo.	Oct.	70.4	64.3	47.1	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	Dec. 9	5.7	5.8	4.9	4.1
Gasoline Stocks	Dec. 9	110	110	106	86
Fuel Oil Stocks	Dec. 9	43	45	64	94
Heating Oil Stocks	Dec. 9	81	85	86	55
LUMBER, Prod.—(bd. ft.) m	Dec. 9	789	796	720	632
Stocks, End Mo. (bd. ft.) b	Oct.	6.5	6.4	7.4	12.6
STEEL INGOT PROD. (st) m	Nov.	8.01	8.74	4.22	6.96
Cumulative from Jan. 1	Nov.	88.3	80.3	70.2	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	Dec. 14	137	485	119	94
Cumulative from Jan. 1	Dec. 14	11,548	11,412	7,935	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	Dec. 9	244	295	203	165
Cigarettes, Domestic Sales—b	Oct.	29.9	30.8	29.2	17.1
Do., Cigars—m	Oct.	554	504	534	543
Do., Manufactured Tobacco (lbs.)m	Oct.	22.3	20.8	22.0	27.6
Motor Vehicles, Factory Sales—t	Oct.	761	723	574	352
Portland Cement Production (bbls.)m	Oct.	22.5	20.9	19.1	14.9

PRESENT POSITION AND OUTLOOK

offset rising taxes, wages and other costs. The Commission already has under consideration a petition by the Eastern railroads for permission to raise freight rates 4%, except on through traffic. If granted, this would add something over $100 million annually to freight revenues.

* * *

The chronically low rate of return on investment under Government regulation should also soften the impact of EXCESS PROFITS TAXES upon the carriers. For 12 months ended October 21, the railroads earned 4% on their property investment, compared with 3.93% in the corresponding period last year.

* * *

Makers of brass and copper goods say that cutbacks of COPPER ordered for the first quarter of 1951—15% for January and February and 20% for March—will cause them a needlessly severe loss of business before defense orders can take up the slack. The cut-backs, which are based upon actual consumption for the first half of 1950, are bigger than appears on the surface since consumption is now running about 11% ahead of the first half. Thus the 80% of first-half consumption allowed for March would supply only 73% of currently expanded needs—an actual cutback of 27%.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted index (1935-9—100). lb.—Labor Bureau. lb2—Labor Bureau (1926-100). lb3—Labor Bureau (1935—100). lt—Long tons. m— Millions. mpt—At mills, publishers and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, instalment and charge accounts. st—Short tons. t—Thousands. *—1941: November, or week ended December 6.

THE MAGAZINE OF WALL STREEET COMMON STOCK INDEXES

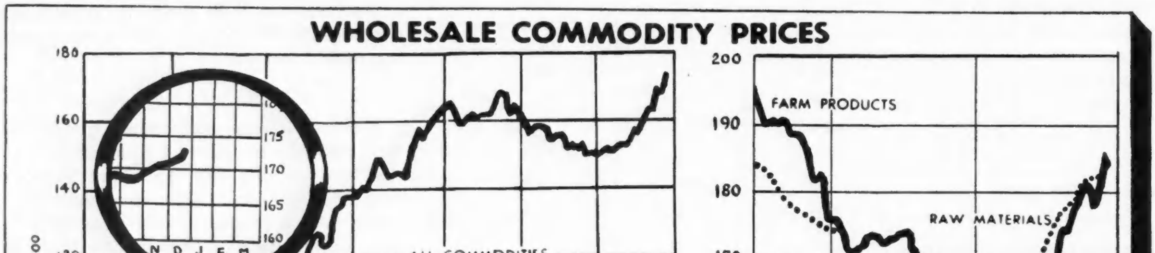
No. of Issues (1925 lose—100)	1950 Indexes High	Low	Dec. 9	Dec. 16
325 COMBINED AVERAGE	169.4	134.7	164.6	168.1
4 Agricultural Implements	234.3	180.7	224.8	232.2
10 Aircraft (1927 Cl.—100)	310.2	170.8	267.3	310.2Z
6 Air Lines (1934 Cl.—100)	589.5	450.3	548.4	589.5C
7 Amusement	104.4	78.0	82.9	83.1
10 Automobile Accessories	241.7	195.6	220.8	216.9
12 Automobiles	39.1	28.5	35.6	36.5
3 Baking (1926 Cl.—100)	23.3	19.0	20.3	20.4
3 Business Machines	293.8	226.5	279.2	281.3
2 Bus Lines (1926 Cl.—100)	176.6	145.9	164.3	159.4
5 Chemicals	322.3	256.4	319.6	318.8
3 Coal Mining	14.7	11.3	13.7	14.1
4 Communication	64.1	41.9	62.6	61.9
9 Construction	64.9	51.3	54.4	55.2
7 Containers	366.5	282.1	348.2	345.8
9 Copper & Brass	126.7	80.3	118.5	119.9
2 Dairy Products	83.7	68.1	77.8	79.6
5 Department Stores	78.5	56.6	66.7	68.6
6 Drugs & Toilet Articles	213.0	170.2	207.8	206.9
2 Finance Companies	361.8	232.8	241.1	232.8b
7 Food Brands	188.1	162.0	180.2	169.6
2 Food Stores	115.3	86.3	109.1	106.2
3 Furnishings	80.8	60.7	60.7a	61.2
4 Gold Mining	753.5	509.7	529.6	517.5

(Nov. 14 1936 Cl.—100)	High	Low	Dec. 9	Dec. 16
100 HIGH PRICED STOCKS	105.38	85.27	101.88	103.09
100 LOW PRICED STOCKS	204.09	151.88	198.66	204.09D
5 Investment Trusts	83.0	66.5	78.5	77.5
3 Liquor (1927 Cl.—100)	1138.0	797.3	1086.2	1117.8
11 Machinery	175.5	140.6	169.6	173.7
3 Mail Order	134.0	99.6	124.8	122.2
3 Meat Packing	108.3	85.9	100.0	101.6
12 Metals, Miscellaneous	230.0	139.9	220.7	230.0D
4 Paper	323.5	213.4	306.7	317.9
30 Petroleum	341.1	243.0	324.8	335.3
27 Public Utilities	153.7	127.7	130.5	131.7
5 Radio & TV (1927 Cl.—100)	35.3	18.1	25.3	23.5
9 Railroad Equipment	65.3	43.0	65.3B	65.2
24 Railroads	36.8	22.3	35.6	36.8D
3 Realty	38.0	30.7	37.1	37.6
3 Shipbuilding	166.2	139.7	153.4	161.5
3 Soft Drinks	391.6	295.9	316.9	324.0
15 Steel & Iron	147.3	96.1	137.1	146.3
3 Sugar	65.9	48.7	65.8	65.8
2 Sulphur	441.7	301.6	421.1	435.3
5 Textiles	191.5	119.9	177.4	191.5Z
3 Tires & Rubber	47.7	32.0	45.7	45.8
6 Tobacco	88.2	77.3	80.8	80.5
2 Variety Stores	352.3	309.2	315.4	309.2a
19 Unclassified (1949 Cl.—100)	117.1	93.2	110.2	109.7

New HIGH since: B—1948; C—1947; D—1946. New LOW since: a—1949; b—1948.

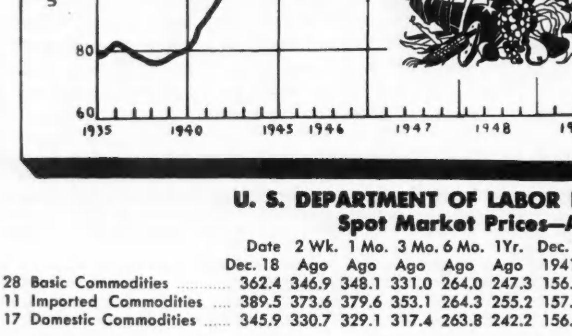
Trend of Commodities

Spurred by the inflationary potentials of a sharply stepped-up defense program, commodity price indexes, spot and futures, soared to new all-time highs during the fortnight ended December 16. The outstanding countertrend movement was a 6% decline in rubber forshadowing a drop in demand for natural rubber next year expected to result from sharply stepped-up production of synthetic. Petroleum, copper, lead and zinc prices held unchanged; but pig iron was hiked an additional $3 to $56.89 a ton at Pittsburgh, a new high; tin advanced 7 cents to a new all-time high; steel scrap was up as much as $4.50 a ton at Pittsburgh; and nickel was raised 2½ cents a pound. Cotton soared $2.40 a bale on prospects of huge military demand for cotton cloth. Industrial alcohol was boosted 25 cents to 90 cents a gallon; and ammonia was raised $6 to $80 a ton. Eggs at wholesale rose to a 30-year high at Chicago on news that the military services are buying 100 carloads a week. Cold storage stocks are the lowest in history—only 71,000 cases on December 1, against 250,000 a year earlier; but the Government is stuck with $100 million worth of dried eggs that can't be disposed of, so price supports will be abandoned next year. Cost to taxpayers for the past 3-years' support program will have totaled close to $150 million. But the Government's hoard of butter is down to 120 million pounds, from 193 million last summer. Rising per-capita consumption of milk leaves less to be churned into butter, production of which in October was smallest for any October in 27 years. A Senate subcommittee asks why the Army bought 13 million pounds of butter in the open market.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—August, 1939, equals 100

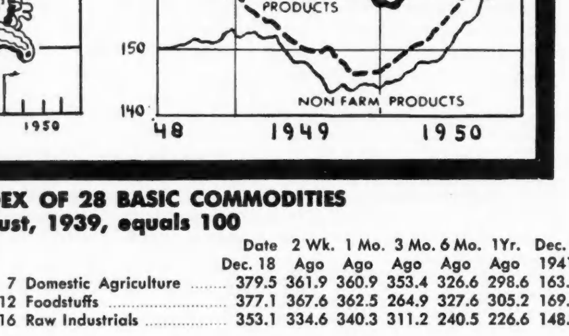
	Date Dec. 18	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	362.4	346.9	348.1	331.0	264.0	247.3	156.9
11 Imported Commodities	389.5	373.6	379.6	353.1	264.3	255.2	157.3
17 Domestic Commodities	345.9	330.7	329.1	317.4	263.8	242.2	156.6
7 Domestic Agriculture	379.5	361.9	360.9	353.4	326.6	298.6	163.9
12 Foodstuffs	377.1	367.6	362.5	264.9	327.6	305.2	169.2
16 Raw Industrials	353.1	334.6	340.3	311.2	240.5	226.6	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1950	1949	1947	1945	1941	1939	1938	1937
High	199.6	161.5	164.0	95.8	58.7	78.3	65.8	93.8
Low	134.2	134.9	126.4	93.6	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1950	1949	1947	1945	1941	1939	1938	1937
High	195.8	146.2	184.4	111.7	88.9	67.9	57.7	86.6
Low	140.8	128.6	123.0	98.6	58.2	48.9	47.3	54.6

Keeping Abreast of Industrial and Company News

Directors of **Baldwin-Lima-Hamilton Corporation** are not resting on their oars now that this newly formed combination has begun to function. In order to achieve diversification, all of the outstanding shares of the Austin-Western Company of Aurora, Illinois have been acquired in exchange for the purchaser's common stock, on a basis of 1.6 shares of Baldwin for each share of Austin. By this move, the locomotive producers acquire the established and successful business of a firm in the road construction equipment and special machinery field, thus measurably broadening market potentials and aiding to stabilize the traditionally varying operations of the rail equipment business.

At the end of a highly prosperous year, **Emerson Electric Manufacturing Company** has taken steps to expand its facilities and to obtain permanent ownership of a sizable plant now occupied under lease. Early next spring, Emerson will have completed construction of a new plant at Bedford, Indiana, with a floor area of about 83,000 square feet. Additionally, it has just purchased a leased facility built and operated for the Government during the war. This plant has been bought for about $3.2 million, with payments to be spread over 20 years.

W. A. Sheaffer Pen Company has received a single order for 40,000 ball pointed pens from a New York bank. These items are presented as favors to persons opening new accounts with the institution. It is interesting to note the proven popularity of ballpoints as an inducement for bank account openings. One Florida bank that used this promotional medium early this year offered pen and pencil sets to everyone opening a savings acount at $10 or more and was surprised in handing out 3000 sets in a week's time. Another bank in Spokane, Washington distributed as many as 5000 ballpoints and pencils.

The government-owned synthetic rubber plant at Akron, Ohio has been promptly reactivated and has resumed production under the management of **Goodyear Tire & Rubber Company.** Idle for the past 42 months, this facility will add 55 million pounds to the Government's expanding synthetic rubber production in 1951. Output will be steadily increased until a 150,000 pound daily production is attained. To reactivate this large plant speedily was no simple job, since considerable equipment had to be replaced and operations had to be completely changed from production of dry rubber to latex or liquid rubber.

Hilton Hotels will extend its European operations to Turkey by leasing a hotel to be built by the Turkish Government in Istanbul. The 300 room hotel, to be built at a cost of $5 million in the center of the city overlooking the Bosphorus, is to be completed by January 1, 1953. It will serve not only the city's population of one million but also people from all over the world. Hilton Hotels only last month entered the European field by contracting to lease and operate a $6 million hotel to be built in Rome.

Orders have been received by **Lockheed Aircraft Corporation** for ten new model 1049 Super Constellations to be purchased by Trans World Airlines at a cost of $16 million. These new planes will be 18 feet longer than the present Constellations and will be propelled by four of the most powerful Wright engines ever built for commercial use, delivering a total of 11,600 h.p. with the aid of jet exhaust stacks. The Super Constellations will carry 75 passengers and will fly with a ceiling 5,000 feet higher than the present models permit. Greater speed will also be attained. Delivery is scheduled for early 1952.

Alexander Smith & Sons Carpet Companl has contracted for the erection of a completely modern, integrated carpet mill in Greenville, Miss. Manufacture of a new type Axminster fabric in both narrow and broadloom widths will be conducted at this location. All processes from raw material to the finished product will be carried out under one roof in a straight-line production operation. The plant is expected to cover 600,000 square feet of floor surface and should provide employment for about 300 persons on a one shift basis. The City of Greenville will meet the cost of erecting the new mill, with the company investing about $3 million for the necessary production equipment. The City expects to raise about $4 million through a bond issue to cover the construction costs.

A sharp rise in demand for citric acid, indicating a development of military needs for the many products in which this acid is an ingredient, has led **Charles Pfizer & Company** to enlarge citric acid production for the third time in postwar. Pfizer's plant at Groton, Connecticut will be substantially expanded and new equipment installed to meet steadily rising demand for this essential commodity. Since 1880 the company has produced citric acid, an important industrial chemical used in the manufacture of plastics and in food processing.

H. K. Porter Company, Inc. announces that its Connors Steel Company Division is proceeding immediately on a 40% expansion of its steel making facilities in Birmingham, Alabama. At an estimated expense of $2 million, an additional electric furnace, a breakdown mill, a heating furnace and increased

finishing capacity will be constructed. The company has secured the necessary approval of the National Resources Security Board to insure prompt completion of the program.

One of the most modern laboratories for the conversion of penicillin into various forms suitable for medical and veterinary uses is now being erected by **Wyeth, Inc.** in the Borough of West Chester, Pa. The new building will occupy about a city block and will cost about $1.5 million. The penicillin building is of fireproof steel construction, completely protected by an elaborate sprinkler system For the protection of those areas where absolute sterility must be maintained, an air purification installation keeps germs at bay.

The establishment of a new wholly owned company to carry on the foreign business of **The Electric Storage Battery Company** and its subsidiaries has been announced by the parent company's president, S. W. Rolph, who will also head the new E S B International Corporation. This organization, incorporated under the laws of Delaware with a capitalization of $3 million, has taken over the export and foreign activities of the Willard Storage Battery Company and the Electric Storage Battery Company in connection with Willard and Exide products. Edward C. Kline, long a leading executive of the parent concern, will serve as executive vice-president and director of the new organization.

Geiger counters, widely publicized for their ability to measure atomic radiation, have been given an industrial job to do in a new electronic tester which measures the tin coatings on non-ferrous metals stock as thin as one millionth of an inch in approximately 30 seconds. Developed by **North American Philips Company,** Mt. Vernon, N. Y. in cooperation with one of the largest steel and tin plate producers, it permits quick, accurate, economical, non-destructive thickness gauging on one side of a sheet, or on both sides simultaneously. X-radiation from a high intensity X-ray tube is directed onto the plated sheet, and the emergent radiation is accurately measured by a geiger counter that operates suitable electro-mechanical printed tape registers.

Giralt, S.A., of Havana, Cuba, oldest and leading distributor in the Republic, has been franchised an exclusive distributor for the products of **Allen B. Du Mont Laboratories.** The franchise covers the entire republic of Cuba, and marks the first foreign contract of this kind for Du Mont. Tremendous enthusiasm for teleision has been created in this Caribbean country. Two TV broadcasting stations are already in operation in Havana and three more have been authorized by the Cuban Government.

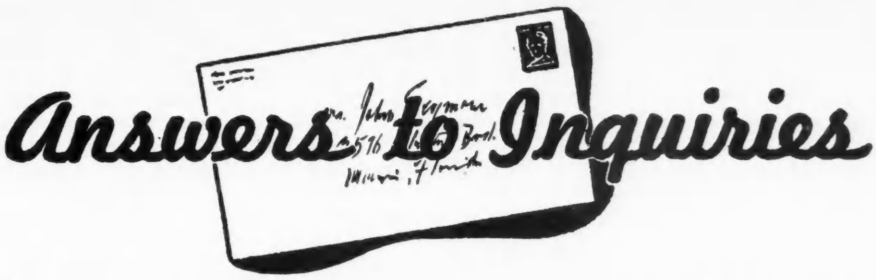
The research laboratories of **General Electric Company** have developed an interesting material which remains liquid as long as a stream of air passes through it, but which hardens in a few minutes when away from air. Its properties are thus opposite to those of paint, which hardens when exposed to air. This new substance has been called "anaerobic permafil". The material has prospective value through its ability to penetrate extremely small cracks before hardening. Thus, a possible application is a tight seal for stopping nearly invisible leaks, or as a "pipe dope" for sealing threaded unions. Another proposed use would be to eliminate the employment of lock nuts, by applying a few drops of it on the threads of a bolt just before a nut is screwed on. The plastic becomes so strong and hard that if two metal strips are coated lightly with it and clamped together, the joint will support ten pounds after ten minutes or 100 pounds are 20 hours.

The unique application of an insulating firebrick to muffle the roar in pet engine test cells has been developed by **The Babcock & Wilcox Company.** Noises made by exhaust gases from the engines, forced out of the stacks at a velocity of 275 to 340 miles per hour, without sound treatment would be extremely objectionable. With the insulating firebrick used acoustically, however, the sound is reduced to a point that only a short distance from the plant it is no louder than a noisy office.

The recent dedication of the **Portland Cement Association's** new $3 million research laboratories near Chicago may foreshadow the development of numerous new uses for cement. One major undertaking of the organization will be to discover a method of bonding newly laid concrete with an old surface of the same material. Development of such a process would make it possible, for example, to resurface than to completely rebuild deteriorated highways. In this event, a vast new market would open for cement, since not only roads but large airports also could be reconditioned with equal economy and efficiency. The laboratories also will develop many new combinations of cement with other materials that will be of increasing value from the architectural viewpoint.

So much publicity has been given to the reported discovery of valuable uranium bearing ores on lands owned by the **Atchison, Topeka and Santa Fe Railway System,** that the management of the road has felt it wise to explain the true situation. Early in the year a Navajo indian became interested in a rock of unusual color found near Grants, New Mexico, where a subsidiary of the Atchison owns mineral rights. For more than a month past, since the ore was found to contain uranium, engineers of the road have been making preliminary investigations, and more recently the services of some consulting mining geologists have been secured. Until a 90-acre thorough exploration can be completed, however, a task that may take at least three months, it is not practical to determine the amount of available ore or its real value.

A test model of a new high-speed, long distance facsimile system, developed by the **Radio Corporation of America** has been installed at the Oak Ridge National Laboratory for providing full reference library service to outlying research laboratories. The reader-transmitter can scan printed copy or drawings on flat surfaces such as book pages and will make direct enlargements of material in small type by any ratio up to 4 to 1 The signal is transmitted over an ordinary telephone line and the recorder will reproduce clear, legible black-on-white copy at a speed of 15 linear inches per minute. On an initial test, a chemist eight miles away requested the complete text of a certain 2-page article in a given book, and the facsimile copy was delivered to him within 4½ minutes.



Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Canada Dry Ginger Ale, Inc.

"I have been wondering how higher costs have affected the earnings of Canada Dry Ginger Ale. Please report recent record of the company's principal divisions."

R. F., Lexington, Kentucky

Canada Dry Ginger Ale, Inc., and its subsidiaries reported a net income of $3,178,510 for the fiscal year ended September 30, 1950, a substantial increase over the previous year's $2,183,887 income. This is equivalent after preferred stock dividend requirements to $1.56 per common share, compared with $1.04 in the preceding year. Net sales were $54,403,983 compared with $51,477,000 a year ago.

Increases in prices of the company's products, made necessary by rising costs, had the effect of restoring the earning power of the company's 29 plants in the United States. Total case sales increased in this division of operations.

Other divisions contributed to the improvement in earnings. The U. S. license department reported a record high due to increased sales of beverage syrups and extracts to licensed bottlers. The major effort of the company was spent on developing an existing Canada Dry bottlers rather than adding new licensees, and the bottlers as a group recorded substantial gains.

An increase in sales and earnings was recorded by the wine and spirits department, which has narrowed its line to concentrate upon the more popular items. The company's subsidiary in the foreign licensing field reported considerable growth, with six new plants opened during the year and others under construction, some of them as a result of a new program for expansion in the Sterling area.

Quarterly dividend has been increased from 15c to 20c per share and a 10c extra was paid in 1950. Total dividends in 1949 were 60c per share.

City Stores Company

"Please furnish recent information as to sales volume and earnings of City Stores Company."

E. D., Columbus, Ohio

Consolidated net sales of City Stores Company and subsidiaries for the three months ended October 31, 1950 were the largest for any third quarter in the company's history, amounting to $50,751,994 against $44,787,559 in the October quarter last year, an increase of 13.3%. Net earnings for the October quarter were $1,326,382 against $938,912 in the corresponding period last year, an increase of 41.3%. The earnings are after all charges including minority interests proportioned and estimated taxes on income, and are subject to year-end adjustments.

These earnings were equal to 76¢ per share on 1,754,894 shares of common and class A stocks outstanding on October 31, 1950 against 56¢ per share on 1,688,401 shares outstanding in 1949. This increase in outstanding stock resulted from the making of a voluntary exchange of common stock of City Stores Company with minority stockholders of common and preferred stocks of Franklin Simon & Company, Inc. and holders of common stock of Oppenheim Collins & Company.

For the twelve months ended October 31, 1950, sales amounted to $200,875,295 against $175,078,147 for the preceding twelve months, an increase of 14.7%. Net earnings for the twelve months, after $4,243,607 provision for federal income taxes, were $4,714,100, an increase of 12.2% over net earnings of $4,201,879 for the twelve months ended October 31, 1949 when $3,388,810 was provided for federal income taxes. These earnings were equal to $2.69 per share on 1,754,894 shares against $2.49 per share on 1,688,401 shares in 1949.

Sales for the nine months were $139,827,863, an increase of 15.3% over sales of $121,255,908 for the nine months ended October 31, 1949. Net earnings for the nine months were $2,462,814 compared with $1,894, 532 for the like period of 1949, an increase of 30.1%. The profits were equal to $1.39 per share on 1,754,894 shares against $1.12 per share last year.

Dividends in 1949 totaled $1.20 per share and 30¢ quarterly has been paid in 1950.

York Corporation

"I understand that York Corporation's earnings increased substantially the past year. Has this been due to any particular circumstance?"

F. M., Olean, N. Y.

Improved manufacturing methods and newly designed products largely accounted for the 32% gain in net earnings of York Corporation, air-conditioning and refrigeration manufacturers. The company also re-

ported a 13% increase in orders booked.

Completed sales for the year amounted to $49,088,198. Earnings after provision for taxes at the increased rate effective July 1, 1950 were $2,139,445, equivalent to $13.37 per share of preferred stock. After provision for preferred dividends, earnings on the common stock totaled $1.91 per share.

The largest increase in orders booked was for air-conditioning products and installations.

Following the outbreak of the Korean war there was a substantial increase in contract orders, some of which were written at the then existing price levels. Since Korea, prices have been raised to cover wage increases and cost increases in materials and components bought from suppliers.

Working capital showed a gain of $774,852 over the 1949 figure. Current assets were 3.64 times current liabilities and the company's mortgage debt was reduced $598,000, leaving a long-term debt of $5,477,000.

Labor-management relations continue to be harmonious, the company citing its 76th consecutive non-strike year. Employment in York's two major plants was increased by more than 17%.

Important developments during the year were the application of refrigeration to the rapidly growing business of citrus fruit concentrate processing and storage, and York's receipt of one of the largest civilian orders in the company's history from a leading food chain. Orders were further stimulated by the introduction of an advanced design of ammonia refrigeration machine which was widely accepted by the dairy, brewery, packing and cold storage industries. Orders were doubled for turbo units which are chiefly used in large comfort air-conditioning systems and in the textile, chemical, oil refinery and aircraft industries, and on passenger ships.

York's acquisition of control of Westerlin & Campbell Company of Chicago, the largest mid-West distributors of air-conditioning and refrigeration equipment, came too late for earnings to be included in the annual report. However, this new subsidiary which is doing $6 million annually, $3 million of which is in York equipment, is expected to substantially increase York's earnings.

The 1951 outlook for the company will be strongly affected by world-wide forces, but the type of plant facilities added since World War II should enable the company to take on many more defense orders, particularly for items requiring repetitive production in large quantities. At present York is executing some important orders carrying "DO" ratings under the national defense program.

Semi-annual dividend rate is 25¢ per share.

Liquid Carbonic Corporation

"Please advise on recent operations of Liquid Carbonic Corporation and prospects of company in peace and defense program."

I. C., Nashville, Tenn.

Earnings of Liquid Carbonic Corporation for the fiscal year ended September 30, 1950 were double those of the previous year. Consolidated net income for the year was $2,417,629, equivalent after preferred dividends to $2.43 a share on 888,505 shares of common stock outstanding. This compares with net income of $1,224,062 and $1.09 a common share for the previous year.

Net sales for the year of $36,001,754 compare with the preceding year's total of $38,454,899, a decrease of 6.4%. Although sales declined, the percentage of profit on sales more than doubled and was in fact better than in any year since 1945. Factors contributing to the sales reductions were; abnormally cool Summer weather, the effect of restrictions and exchange difficulties on export orders, and an industry-wide decline in the level of capital expenditures in the field.

Oxy-acetylene gas and equipment sales showed a satisfactory improvement during the year and this business is generally continuing at the higher levels. To provide additional manufacturing capacity, which is badly needed, and to effect economies in operations, the company's oxygen and acetylene plants now located at Chicago and La Grange, Illinois, will be centralized in La Grange at an approximate cost of $500,000.

Liquid Carbonic, Ltd., London subsidiary, has expanded its activities by organizing subsidiaries at Christchurch, New Zealand, Johannesburg, South Africa, and Sydney, Australia. Most of the funds required to capitalize these subsidiaries represent direct investments in pounds sterling taken from the surplus funds of Liquid Carbonic, Ltd., London.

Based on the company's experience in World War II, there is every reason to expect that the compressed gases division will be of increasing importance as and if the country moves further away from normal peace-time conditions and that the products of this division will contribute importantly to the military effort.

The company has organized a "contract manufacturing division" to obtain commercial subcontracts and war-connected orders to fill gaps in bottling machine production that may be caused by the diversion of metals to military production. This division is already obtaining a volume of orders equal to the regular beverage machinery orders.

Prospects for the company over coming months in a peace or defense program appear satisfactory.

Dividends including extras totaled $1.25 per share this year against $1.00 in cash and 5% in stock paid in 1949.

Garrett Corporation

"Please furnish information on Garrett Corporation's operations, what are the principal divisions of the business and what industries are its principal customers."

E. S., Burbank, California

The Garrett Corporation's operations are closely allied with the aviation, machine tool and hardware industries.

Operations are conducted through four unincorporated divisions and one wholly-owned subsidiary, the Northill Company, Inc., which manufactures a light weight anchor.

AiResearch Manufacturing Company is a manufacturing division, which also engineers and designs a complete line of heat transfer, pressure control, and electrical equipment for use in aircraft. Among the principal products are: cabin pressure control systems, cabin air-conditioning systems, engine oil cooling systems, automatic exit flap control systems, and supercharger coolers.

Airsupply Company acts as engineering and sales representatives on the West Coast for numerous eastern accessory manufacturers.

Garrett Supply Company con-
(*Please turn to page* 352)

Aluminum Industry Expands to Meet Defense Needs

(*Continued from page* 333)

was paid in December, making a total of $3.45 for the year.

Altogether, the leaders in the aluminum industry are well assured of very high level activity for a prolonged period, with rather clearly marked indications that they may prosper increasingly, although taxes will be sure to moderate earnings gains. That share prices of the leading producers have quite strongly discounted their encouraging potentials is well shown by the low yields currently obtainable on equities in this group. At recent quotations, their attraction appears limited except as a speculation on the ultimate fruits of long term benefits from expansion of productive capacity as well as consumer markets.

Securities Disturbing Investors

(*Continued from page* 335)

is obvious that payment of 20 cents a share quarterly dividends, such as have been distributed through the current year, is not too assured. While strong finances might permit dividend liberality, dividends under the terms of a $10 million loan agreement with an insurance company are restricted to one million dollars plus 65% of net earnings since December 31, 1948, and 1950 is the second year in a row when the available cushion has shrunken. Considering everything, Bayuk shares appear to have very limited appeal in our opinion.

Allied Mills, Inc.

Some investors, to judge from our mail, are concerned because the stock of this prominent manufacturer of livestock and poultry feeds, as well as of products processed from soy beans and alfalfa, has reflected little vigor at times when the general market was advancing strongly. Recently, the shares sold at 27¼, only half a point above their 1950 low of 26¾. In 1946, when annual dividiends were only $2 per share compared with $2.50 in the current year, Allied Mills sold as high as 39.

In examining this situation, however, it seems likely that lack of market support and general speculative appeal accounts for the relatively laggard behavior of the stock. For the past five years, the shares have been quoted within quite a narrow range considerably more restricted than that of the general market during broad trends upward or down. For this reason alone, the recent limp action of this stock should create little surprise.

Neither the long term record of Allied Mills nor operations in the current fiscal year furnish any valid grounds for apprehension over the company's satisfactory progress in the future, although no prospect of dynamic growth is presented. The company has operated profitably in every year since 1929, and except in the 1931-34 period has paid dividends regularly, indeed never less than $2 per share since 1942. At the end of fiscal 1950 (June 30), the company distributed an extra of 50 cents a share to supplement quarterly dividends of 50 cents, indicating above-average liberality in considering earnings of $3.06 per share for the year. The company, though, is strongly financed and has fully completed its postwar expansion and modernization program; hence it can afford to be generous with dividends.

In the September quarter, Allied Mills got off to a good start on fiscal 1951, with sales of $19.3

(*Please turn to page* 350)

By Your Own Vote!

sary to proceed under the Mahaffie Act. The Mahaffie Act was passed by Congress in 1948 for reasons best described in its Committee report, to wit:

"*as a result of increasing dissatisfaction over a period of years by Members of Congress and by large numbers of citizens with the operation of railroad reorganization procedures under section 77 of the Bankruptcy Act and sharp criticism of the forfeitures of investments under that section.*"

A Mahaffie Act Plan Will Preserve Your Values

The Mahaffie Act was passed by Congress in 1948 with the express idea of correcting injustices under Section 77. Just as the Jersey Central in a period of a few months was brought out of Section 77 under a Mahaffie Act Plan, so can the Missouri Pacific be brought out. Why is it that the Insurance Companies regard what is good for the Jersey Central as bad for the Missouri Pacific?

Mark your ballot R-E-J-E-C-T

J C Davis *On Behalf of the Missouri Pacific Railroad*

Robert R. Young · *On Behalf of Alleghany Corporation*

THE POSITION OF ARBITRAGEURS: The arbitrageurs, who have bought System securities and sold "when issued" securities against them will be benefited by voting "REJECT" no less than other security holders. These arbitrageurs have already benefited in their "long" position by recent rumors of the favorable developments presaged by this message to you. They should be gratified to be relieved of their "short" position which has moved against them, and promises to move against them much farther.

WARNING: Insurance companies, bankers and brokers having special interests in the situation, and especially brokers with profits in when issued securities, will advise you to "accept" the present plan. The chief argument of these "advisors" will be that the railroad has been in reorganization long enough. Heaven knows we know it! The truth is, the present plan is not yet so far along as the 1941 plan was nine years ago; for, besides ourselves, there are ten other determined appellants, whose cases, like ours, are in many respects stronger than they were then.

million compared with $16.8 million in the same period of 1949. Net earnings, though, gained only moderately to 59 cents a share from 54 cents, undoubtedly due to allowance for retroactive taxes at an increased rate. Demand for the company's products promises to remain at high levels in 1951, prices should continue firm, and ample supplies of raw materials for stock and poultry feeds are reasonably well assured. Since in 1947 and 1948 Allied Mills experienced record high earnings, the impact of EPT should be moderate.

On the whole, accordingly, Allied Mills shares should be retained in average portfolios, or additional amounts could be acquired if present holdings were purchased at substantially higher prices than those now prevailing. The current yield of 9.2% is quite attractive and might prove dependable for some time to come.

The Soft Goods Industries in 1951

(*Continued from page* 319)

hard goods business.

Generally in the year ahead, retail demand should derive support from the prospect of record consumer income resulting from peak employment at higher wage rates. And since prices may average about 10% higher than last year, favorable sales comparisons are strongly indicated. Taxes of course will determine net results.

Price controls, when they come, are another matter, depending on the nature of such measures, but there seems little likelihood of margin squeezes caused by price roll-backs. The general belief is that prices will not be rolled back but frozen at levels very close to those prevailing when price controls are promulgated. By comparison, excess profits taxes are a far greater threat to large profits, but vulnerability in this respect naturally varies considerably.

The relatively favorable outlook for soft goods lines, from a manufacturing as well as merchandising standpoint, has found reflection in the market action of respective shares. Textile equities in recent months had a good rise that carried them within striking distance of the 1946 peak and they have shown above average recuperative power in the wake of recent market setbacks. Much the same is true of merchandising shares, though on a more selective basis, in recognition of improving earnings and future prospects.

As far as textiles are concerned, 1950 earnings for the most part will be up sharply as a glance at the appended tabulation will show. Results for the first nine months show marked improvement in sales and earnings, and the final quarter will hardly be found wanting.

Take for instance Pacific Mills which in the first nine months netted $6.76 per share against $4.16 in all of 1949. The data presented reflect not only a strong upsurge in sales but a remarkable improvement in the profit margin. Total 1950 net profits should be around $9.50 a share, against which the $2.50 dividend (plus 5% in stock) appears rather modest and subject to improvement. The company moreover has a fairly high EPT exemption, thanks to high earnings in the 1946-48 period, and this should go far towards cushioning future EPT impacts. At 43¾, we consider the stock reasonably priced in relation to earnings and dividend prospects.

Similarly, Burlington Mills shows a smart gain in sales and earnings for the last fiscal year ending September 30, with per share net up to $6.86 from $4.31 in the preceding year on sales that rose to $286.9 million from $263.4 million. That means that earnings rose about 60% on a less than 10% gain in sales, a showing made possible by greater plant efficiency, expanded facilities and firmer prices.

At recent price of 25⅝, the stock yields better than 8% on the $2.12 dividend paid in 1950. While the stock is normally volatile and leveraged by several preferred issues, the moderate dividend appears wholly dependable in the light of future prospects which gain further promise by the growth factor in the use of rayon. In fact, the dividend could well be raised, since the company enjoys a substantial EPT cushion based on sizeable 1947-49 earnings.

We have included in our tabulation American Woolen, a highly speculative stock hardly suitable for the average investor but not without interesting potentials under prospective conditions. Volatile sales and heavy overhead have made for sharp fluctuations in earnings which dropped from $15.92 per share in 1948 to $1.18 in 1949. In the war years 1942-45, per share net averaged $8.81 despite heavy taxes.

Thanks to the improvement in the textile field generally but importantly because of substantial military orders (which will probably continue to swell), the company is registering steady earnings progress. In the first half year it earned 53 cents a share, but in the third quarter profits rose to 87 cents for a total of $1.40 in the first nine months compared with $1.18 in all of 1949.

Orders on the Rise

While the improvement so far is hardly sensational, it is likely to gain momentum as the defense effort expands. The company *needs* large orders to make profits, and such orders may now be in the offing. At recent price of 46½, the stock yields a mere 2.2% on the nominal $1 dividend paid in 1950. This narrow yield on such a volatile issue seems to discount further earnings progress. Because of a huge EPT exemption based on enormous 1946-48 earnings, the company is virtually immune to EPT. It would require an enormous earnings recovery to incur such a tax liability. Indicative of what the market thinks of the company's improved prospects in a war economy, the stock has soared some 10 points within little more than a week recently. A good deal of short covering doubtless contributed to market strength.

Such concerns as Best & Co. should conceivably benefit from greater consumer emphasis on apparel purchases. While results so far reported this year are not overly impressive, the best quarter is still ahead and the upward earnings trend is unmistakable. Best & Co. which netted $1.08 in the six months ended July 31, should earn about $4 a share for the full fiscal year ending January 31, 1951 compared with $3.29 in the preceding fiscal period, and next year should earn around $3.50 despite EPT, having a relatively sheltered tax position. That will leave the $2 dividend well protected and the 6.8% yield at current pricee of 29 is not unattractive.

In the booming rayon field, both American Viscose and Celanese Corporation have chalked up not-

able sales and earnings gains during the first nine months of 1950 and future prospects remain excellent despite somewhat greater vulnerability to excess profits taxes. Celanese earned $5.57 a share in the first nine months and should net better than $7 for the full year 1950. Even were EPT applied, this would still leave around $5, a figure that can be regarded in the nature of minimum earnings potential in 1951. The $2.55 dividend paid in 1950 at that rate would be amply covered, and could be improved upon.

American Viscose earned $5.86 a share in the first nine months and should net around $8 for the full year 1950. The EPT cushion is a trifle better than in the case of Celanese, leaving ample dividend protection.

Case for Immediate Wage-Price Controls

(*Continued from page* 314)

our defense dollars to outfit and equip ten infantry divisions; to buy 300 heavy bombers; to buy 2,250 jet fighters; to buy enough tanks for ten armored divisions.

In other words, we would have been able to buy this much more with the money Congress has voted and is now voting for defense, had prices been held to their pre-Korea levels. That is why we say again: Stop the spiral now.

Bitter experience in World War II proved to the hilt the inadequacy of selective controls, voluntary controls and attempts to "roll back" prices and wages after they once go up.

Europe or Asia—Which is More Important?

(*Continued from page* 324)

Peking, and Canton, may result in a wholesale slaughter of human beings, but in the long run may harden rather than weaken the resistance of the Asian people. Our better bet is to concentrate on the bombing of railways, industrial targets in Manchuria, and port facilities, so as to prevent the economic and military consolidation of Red China.

The expansionism of the Chinese communists could probably also be checked by deliberately plunging the country into a civil war again. This could be done by the landing of Chiang Kai-Shek's troops, now training in Formosa. They could be landed in South China where as many as 1,000,000 guerillas continue to make trouble for Mr. Mao. The economic collapse of Canton, Shanghai and other large cities in the South is reported to have softened the Chinese people towards accepting the Nationalists. Elsewhere peasants are disgusted with the land reform.

Our retirement to the islands fringing the mainland would put a wide strip of water between us and the communist masses. We would be among friendly people, and consequently no large forces would be necessary. Nor should one forget the part that the Japanese could play in policing the Far Eastern perimeter. The rearming of Japan, which sooner or later must be considered, is not likely to create the problems faced in the case of Germany. Under the threat of communism, the Filippinos and the Indonesians have modified their earlier objections. Moreover, the growing economic ties, particularly since China has been closed, are also bringing together Japan and the island nations of Southeastern Asia.

The part of the world that must be held at any cost is the Near East. Strategically, this is the most important area, as it has always been in human annals. Both the communist and the noncommunist world are highly vulnerable to its loss. Huge airfields have been or are being built in this area stretching from Tripoli and Cyrenaica in North Africa to Egypt, Israel, Syria, Lebanon, Turkey, Iraq, and to Iran and Saudi Arabia. The huge reserves of petroleum would, of course, provide oil for tank armies as well as fleets of airplanes.

The aircraft based on the Cyrenaica, Cyprus, Iraq, and Saudi Arabia airfields can easily strike targets in the Ukraine or in the Southern Caucasus, where the principal Russian oil fields are located. Thus if we are able to hold or control the deserts and the steppes of the Near East, we may be able to cripple Russia's main industrial areas. If we lose the Near East, our air fleets will be without bases and Europe without petroleum. It is quite foreseeable that to protect themselves and to get the prized oil fields, the Russians will break out with all they can muster toward the Persian Gulf, thereby establishing a wedge between India and Europe.

What makes the outcome of the struggle in the Near East uncertain are the internal conditions in individual countries. Iran and Egypt are torn by internal intrigues. The majority of the people are desperately poor and there is little evidence that the governing classes are taking effective steps to improve the lot

of the peasantry who are still lethargic and unresponsive. But this state of affairs may change if the Russians turn on their propaganda. Small but active groups in Lebanon, Syria, Egypt, and Iraq have already fallen for communist tales of "the good life" in a class-less society.

At this point the situation is still too fluid to be certain whether World War III will erupt or what form it would take. We will have to do quite a bit of "trading of space for time" if it comes now. While we were smashing the Russian and Chinese industrial targets and bringing the communist war production to a standstill, Stalin could probably take most of Western Europe, and Mao could occupy most of the Indo-Chinese peninsula. Our eventual comeback would be greatly influenced by our ability to hold on to the great Near Eastern oil fields.

If war does not break out during the next few months it is quite possible that the rearmament race will become more and more a race for invulnerability. The communist world which has the preponderance in foot soldiers, tanks, and artillery may concentrate more and more on the building of atomic weapons and on defenses against our long-range air force charged with the delivery of atom bombs over Soviet industrial targets.

The democratic world in turn, is likely to concentrate on the outfitting of combat armies which now are few and far apart and lacking in up-to-date firearms. When both communist and non-communist worlds overcome their respective weaknesses and are equally strong, a point may be reached when one can no longer threaten the other. That is the only hope to keep the civilization we know from being smashed, and the world from sinking back into the dark ages.

Meanwhile it would be a grave mistake to think in terms of completely abandoning Asia in favor of Europe. In aggression triumphs in Korea and elsewhere in Asia, it will spread quickly elsewhere, including Europe. What would be Europe's prospects then? In that event it might well turn out that the fate of humanity has been settled in Asia rather than in Europe—which we are defending in Korea no less than if we were fighting on the European continent.

Answers to Inquiries

(*Continued from page* 346)

ducts a wholesale mill supply business specializing in the sale of tools, steel and hardware supplies to manufacturers and to the general trade of southern California.

AirResearch Aviation Service Company offers a maintenance repair and custom-trim service to aircraft owners at the Los Angeles Municipal Airport.

Consolidated net sales for the fiscal year ended June 30, 1950 were $22,204,909, net profit was $2,043,372, equal to $3.25 per common share. Net income for the previous fiscal year ended June 30, 1949 was $2.66 per share.

Dividends including extras totaled $1.70 a share in 1950 against $1.50 paid in 1949.

Consolidated balance sheet as of June 30, 1950 showed total current assets of $10,726,383, total current liabilities of $4,212,297 leaving net current assets of $6,514,086.

Company's manufacturing division AirResearch Manufacturing Company had a backlog of approximately $32,500,000, early in December, according to the president of the company. No figures for this time a year ago are available, but in September 1949, orders were $13 million and at the end of January 1950, they were $16 million.

Garrett Corporation of Los Angeles is establishing a new division, to be called AiResearch Manufacturing Company. The latter will build a $1,500,000 plant in Phoenix to manufacture air turbine refrigerators and cabin pressure controls.

Peabody Coal Company

"With the improved demand for coal in recent months, I have been wondering how Peabody Coal Company fared. Will you please give me pertinent data?"

S. E., Des Moines, Iowa

Net earnings of Peabody Coal Company and its subsidiaries in the six months ended October 31, 1950, were $1,116,589 after provision for federal income taxes, compared with a net loss of $331,092 after an income tax credit in the corresponding period the year before.

After preferred dividend requirements, the latest six-months earnings were equal to $1.11 a share on 651,893 shares of common stock outstanding, compared with a loss of $1.15 a share on 634,543 common shares in the like period last year.

Sales in the six months totaled $28,646,370 as against $17,461,-993 in the same half-year in 1949. Sales in tons were $7,111,504 in the 1950 period and $3,813,740 in the 1949 period.

The reduced sales and loss of income in the 1949 half-year were attributable to operational restrictions imposed by the United Mine Workers of America. During that period a possible 173 days of operation were reduced to 73 days of actual work.

In the three months ended October 31, 1950, net earnings were 82¢ a share on 651,893 common shares outstanding, as against a loss of 88¢ a share on 634,543 shares in the corresponding quarter last year. Dollar earnings were $734,802, compared with a loss of $356,428 in the same three months of 1949. Sales were $15,534,875 as against $7,-101,737.

On November 1, 1950, the company's new Mine 17 at Pana,

Illinois, was placed on an operating basis and is producing approximately 5600 tons of coal per day on two operating shifts.

For the fiscal year ended April 30, 1950, a deficit of 15¢ per share was reported against a profit of $3.52 in the preceding fiscal year.

Dividends this year were 50¢ a share against 70¢ paid in 1949.

For Profit and Income

(*Continued from page* 337)

highly profitable levels, whereas they were frozen at a niggardly 12 cents a pound in World War II; and (3) fairly good EPT exemptions because of high average postwar earnings.

Rails

Rails have had a big rise and hence might be subject to considerable reaction at almost any time. The fact remains that an armament economy and special tax consideration have given more speculative "sex-appeal" to these stocks than they have had since late in the 1942-1946 bull market. Maybe it would be logical to emphasize quality at this point; but most of the better-quality rails are at much more advanced levels, in comparison with 1946 highs, than the speculative issues. So, if the rail move goes further, the chances are that "specs" like Baltimore & Ohio, New York Central and others will show their heels, percentage-wise, to the Union Pacifics, Atchisons, Norfolk & Westerns, etc. Speculative rails can move fast—both ways. They are moving fast on the up-side as this column is written.

Groups

At this writing, stock groups which are at, or "flirting with," new 1950 highs include aircrafts, air lines, chemicals, coal, copper, glass containers, lead and zinc, machinery, metal fabricating, mining and smelting, oil, paper, rail equipment, rails, soaps, steel, textiles and apparel, and tires. That still leaves plenty of groups which give no indications of going anywhere to speak of on the up-ward side.

Gulf Oil

In our November 4 issue, in a comprehensive tabulation of oil industry data, proven crude oil reserves of Gulf Oil Company were estimated at 1,300 million barrels. Actually this estimate applied to domestic reserves only, but Gulf Oil also holds very substantial oil reserves abroad. If the latter are included, the total would come to somewhere around 6,500 million barrels, and thus compares favorably with other big oil concerns with substantial foreign as well as domestic reserves.

What War Profits Tax Will Do To Corporate Earnings

(*Continued from page* 317)

the past three years were not sufficently large to establish a very favorable exemption base. In consequence, 1950 earnings would have narrowed to $6.50 per share from $9.

Here again, though, is an instance where conservative dividend policies, indicated by payments of $2.50 per share in the current year, easily assure dividend stability at the 1950 rate despite the effect of excess profits taxes.

In offering these comments and the statistical projections on the appended table, we again caution our readers that they are necessarily hypothetical to some extent and make no allowance for any modification that may be contained in the final version of the tax law. Nevertheless, these calculations should furnish interesting clues as to potential impacts, the varying degrees of vulnerability of individual companies, etc., that should have real value.

As I See It!

(*Continued from page* 309)

United Nations is in a fog of debate and indecision as to whether to appease or not to appease.

It is plain that until the vascillating governments in the European capitals move decisively to create their respective forces, they have no right to ask further American assistance. Communists cannot be turned back by blueprints and vague promises, and time is running out.

But if Europe cannot overcome her own trend towards defeatism, *we* need not succumb to it. There is no need for us to surrender to apathy and frustration; what will be needed, however, is a new foundation of our national policy, one designed for reliance on our own strength and resources. The hope is that this won't be necessary, that Western Europe will yet understand that for them there can be no standing aside without the gravest risks to their own freedom and independence. That in the long run, in the struggle between East and West, they cannot "sit it out".

Trend of Events

(*Continued from page* 308)

aid funds merely come from another pocket, for in its essence, suspension of Marshall Plan aid merely means a redirection of aid from the uses of peace and reconstruction to the implements of defense. But it also signalizes mutual recognition that a new chapter must be written.

Market Now Appraising Individual Issues

(*Continued from page* 311)

price controls, etc. can trouble many industries in the forepart of 1951. And when the arms orders are placed it will still take months, in many cases, to tool up and shift to the production thereof — with profits cut during the conversion period.

Finally, on the record to date, confidence in the Administration's management of foreign policy can not be high; and there can be no basis for assuming that the market has seen the last of the shocking foreign developments. We continue to advise maintenance of about 60% of total common-stocks funds in selected equities, holding 40% in "reserve against contingencies". —Friday, December 22

Study of Southern Railway —A Growth Stock

(*Continued from page* 327)

tions are favorable, there would be little prospect of doing so in later years if earnings should decline. Accordingly, it would not be surprising if directors viewed favorably a recommendation for restoration of the $4 annual dividend on common shares when the first quarter dividend is considered late in January.

Distributions for 1950 came to $3 a share because the board decided to pursue a more cautious policy than in 1949, when payments amounted to $4 a share. Reduction in the quarterly rate to 75c a year ago was dictated by adverse effects of the bituminous coal strike which curtailed freight movement in late months of 1949 as well as in January a year ago.

In addition to the encouraging pickup in traffic in recent months, Southern Railway (and other roads of course) received a windfall in settlement of negotiations for increased mail pay. Roads had sought a 95 per cent rise in early 1947, but only a temporary increase of 25 per cent was granted at that time. The recent settlement awarded another 19 per cent increase retroactive to February, 1947, which in case of Southern would mean an estimated increase in 1950 net income equivalent to about $2.30 a share.

Some funds may be required to settle a long-standing tax dispute with the Federal Treasury. The Government agency has charged liability for back taxes approximating $25 million, but on basis of negotiations it now is estimated that a settlement may be made on more reasonable terms. Some time may be required before an adjustment can be reached, according to management sources. Company officials feel confident that a solution can be reached which would not seriously impair the road's cash position. Meantime, it is thought that adequate reserves have been set up and that a compromise would have little effect on the financial position.

Another favorable factor to be taken into consideration in an appraisal of Southern Railway is the simple and relatively modest capitalization. Outstanding equipment obligations a year ago amounted to about $58 million, and indebtedness in this category has not increased much in the last twelve months, it is believed. Total funded debt at the end of 1949 amounted to slightly less than $252.5 million. In addition to 600,000 shares of 5 per cent noncallable preferred of $100 par value, the road has outstanding 1,298,200 shares of no par common. Such a capitalization affords considerable leverage and accounts for the fact that the shares tend to fluctuate widely in reflecting changes in business and market conditions.

BOOK REVIEWS

RAILROADS OF TODAY

By S. KIP FARRINGTON, JR.

This modern and up-to-date volume is a companion book to Mr. Farrington's recent *Railroading from the Rear End* and is comparable to his *Railroads at War*, which had the largest sale of any railroad book ever published. Like its two predecessors, *Railroads of Today* contains 72 pages of the finest action photographs of new trains in modern operation on the United States railroads. The industry is solving many difficulties in connection with passenger traffic. This book describes some of the new trains and new operations that are now being put in service, after a long delay which was not the railroad's fault, but was due to the delay in receiving new equipment.

This book is a must for every American citizen who is interested in this great industry as well as for all railroad fans, model enthusiasts, and railroad men. The author's series of books on American railroads are more widely read by every type of American railroader than any other. His books on railroading have been highly praised by all railroad men for their factual correctness and attention to detail.

Six railroads are thoroughly covered in this book which have not been in Mr. Farrington's other railroad books. Among operations covered are Centralized Traffic Control, new motor car signals, new retarder hump yards, new signal devices, track inspection cars, tests of the Electro-Motive 6,000 horse power Diesels, Diesel operation reports, figures on dynamic braking, the new C. & O. steam turbine locomotive roller bearings, new Union Pacific roller bearing stock train, the B. & O. sentinel freight service, through-car services, new ideas on high speed braking, the Diesel valve pilot, new modern trains like the New York Central's "Twentieth Century Limited," Santa Fe's "Super-Chief," the Missouri-Pacific's new "Eagles," Great Northern's "Empire Builders" and others. Not to be overlooked are chapters on the movements of coal and green fruit. To sum up, this book is the story of the railroads of today by one who knows.

Coward-McCann $6.00

CONGRESS AND FOREIGN POLICY

By ROBERT A. DAHL

Democracy today is in direct conflict with dictatorship. Do the processes of democratic government put us hopelessly at a disadvantage? Can Congress, in the present era of permanent crisis, exercise prompt and wise control over our foreign policy?

Much of the responsibility for providing leadership and for securing understanding and support among the electorate rests with Congress. Yet the plain and ominous fact is that Congress faces tremendous difficulties in carrying out this task. As it now plays its exacting role on the political stage, it is hampered and restricted on every hand. Swiftness of action, in the world of today, is a condition of survival. If we are to meet the test, we must know in detail the nature of the difficulties faced by a democratic legislature and form a plan for removing them.

The techniques of the social scientist, combining the insights of psychology and anthropology, enable Mr Dahl to analyze this vital problem with unprecedented clarity and thoroughness. The limitations of Congress and of the individual Congressman are thrown into relief by a broad view of the conditions within which they are forced to operate and the pressures to which they are subjected. The proposals for reducing these pressures and limitations are carefully examined.

Any lessening of Congressional responsibility leads in the direction of dictatorship. The alternative course is a new and closer collaboration between the President and Congress. It is this course, this departure from tradition, that is supported here with compelling reasons.

Harcourt, Brace and Company $4.00

ECONOMICS OF TRANSPORTATION

By MARVIN L. FAIR & E. W. WILLIAMS, JR.

This is probably the most complete and balanced treatment of the economics of the American transportation system —rail, air, water, highway, and pipeline —available in a single volume. Prepared by two experts who have had extensive experience in government transportation agencies as well as in college teaching.

It is sound in economic theory, almost encyclopedic in factual information, and realistic in its consideration of transportation problems.

The major importance of this volume lies in its treatment of transportation as a function of American economic development and economic activity. It is largely concerned with the place of transportation in the flow of utilities that constitute our economic system and its contribution to the evolution of our modern economic and social order. This is the first general work to deal with the subject from this point of view.

ECONOMICS OF TRANSPORTATION is unusually thorough in its treatment of some of the more important aspects of the subject, such as the analysis of the economics of transportation service, treatment of transportation rates and their application in the light of existing regulations, and consideration of transportation agencies and their functioning.

Harper $5.50

BOOK REVIEWS

THE SOUTH AMERICAN HANDBOOK

Brazil, larger than the United States, is the fourth largest country in the world. It was discovered for the Portuguese in 1500 by Pedro Alvarez Cabral. Its racial make-up is a mixture of white, negro, Indian, and Asiatic peoples, with little trace of color bar and no racial tension. A social service authority is now putting up low cost houses. Lake Titicaca (Bolivia) is the highest navigable water in the world. The state rooms on steamers are as comfortable and as well equipped as those on the average ocean liner, but it is uncomfortably cold. Antofagasta, Chile, has a relightful climate which never varies more than a few degrees from a pleasant 68F. But May through August are the best months for a visit.

These are only a few of the thousands of interesting items that will delight the browser in the 1950 edition of *The South American Handbook* (766p. $1.50), the standard English work imported by The W. Wilson Company, New York 52. The exporter, importer, traveler, researcher, student and good neighbor will again find much of value in this book, and appreciate its fourteen-page index. Sailings are given from both the east and west coasts of this country, but the reader embarks at London and goes pleasantly ashore at twenty ports of call, La Coruna, Lisbon, Canary Islands, Bermuda, Haiti, etc.

A chapter is devoted to the overall South American scene and twenty-three chapters describe the countries south of the Rio Grande including Mexico, the Central American Republics, Cuba and the Falkland Islands. The history and political backgrounds are sketched for each. Weights, measures and monetary standards are, of course, included. The flora, fauna and physical aspects are described. Major points of interest in principal cities are given. How to reach them, where to stay, what to wear and the cost are all disclosed. There are also pages on natural resources, exports and imports, and social and economic outlook. In short, the book is 766 pages of interesting and valuable information.

The H. W. Wilson Company $1.50

FINANCIAL REPORTS OF LABOR UNIONS

What are the nature and content of union financial reports?

Are union reports reliable?

Are union reports understandable?

What is the status of accounting practice in labor unions?

To whom are union financial reports made available?

How are such reports used in union administration?

THIS is a pioneer study of the accounting and financial reporting methods of international labor unions and the part that financial reports can play in union administration. Part I sketches the history of reporting from 1853 to provide a background for the analysis in Part II of the reports of specific internationals. Part III examines current union accounting practices to determine their effect on financial reporting. Part IV points out ways in which the union official may use reports in his administration of union affairs and in informing the membership and the public of union activities.

The author, George Kozmetsky, Instructor in Business Administration at the Harvard Business School, has based his findings on interviews with officials of 27 international unions, analysis of over 100 financial reports, and study of more than 150 official union publications with reference to financial reporting.

Division of Research
Harvard Business School $3.50

COMPANY ANNUAL REPORTS

By THOMAS H. SANDERS

During the last few years many business corporations have changed the form of their annual reports. This new interest reflects the concern which their directors and executives feel over company relations with stockholders, with employees, and with the public at large.

This study by Professor Sanders looks at the various developments in the form and content of such reports and the objectives which they are seeking to meet.

PART I contains a condensed statement of the aims and problems of the annual report and the author's views of them. Included are the president's section of the report, the presentation of financial information, and use of pictorial and statistical material.

PART II assembles and summarizes the views and efforts of different groups interested in the annual report. Replies to questionnaires sent by the author to company managements and investment analysis are summarized and quoted, as well as replies to questionnaires sent by seven corporations to their stockholders. The reactions of security analysts and employees to company questionnaires are reported, and also criticisms by labor unions.

PART III offers a statistical summary of accounting trends in annual reports over a period of 15 years, with particular emphasis on balance sheet, income statement, and income and surplus items.

The author, Thomas H. Sanders, is Professor of Accounting at the Harvard Business School. His long experience as a student and teacher of accounting provided him with the necessary technical background to undertake this study. His business experience furnished a sense of reality. And his mature judgment particularly qualified him for making this objective survey of current practice in corporate reporting.

Division of Research
Harvard Business School $3.75

BLACK BONANZA

No other phenomenon has changed the lives of Americans more than the "black bonanza". . . oil. From its first use as a cure-all medicine to the more than 4,000 products in which it is now used, oil has become increasingly important to our everyday existence. Today it is the virtual lifeblood of our mechanized, rubber-tired world. In this true story of the founding of the Union Oil Company by Lyman Stewart and Wallace Hardison and its growth from the early days in the muddy, brawling Pennsylvania oil rush to the pipelined petroleum business of the present day, the whole dynamic history of one of the country's key industries comes vividly to life.

Union Oil has grown big in a way unique from other big oil companies. By fighting the battles of small independent producers and distributors, it expanded from a little wildcatting operation until its oil hunters probed the earth from Alaska to Paraguay—and even the shelf under the waters of the Gulf of Mexico and the Pacific Ocean. Union built the first tanker on the Pacific Coast; converted the first Western locomotive to oil; laid the first pipeline across the Isthmus of Panama from the Pacific to the Atlantic Ocean; punched the first deep wells and brought the world's largest gusher into the West. This memorable and exciting saga of how men of courage and vision built a flourishing industry reveals once more the energetic spirit of initiative which has motivated American enterprise from the beginning of her history.

Whittlesey House $4.00

THE PRUDENTIAL

Dramatic, exciting, and as readable as fiction, THE PRUDENTIAL is the intensely human story of the development of one of the great life insurance companies of the world—from the early struggles of its founders to its present status as a financial institution affecting the lives of millions of families.

The Prudential was born seventy-five years ago in a basement office in Newark, New Jersey. It was here that John F. Dryden, a frail young dreamer from Maine, launched the idea of weekly premium insurance—a new kind of security and protection which the poor could afford. Through the lean years of depression and despair, when every penny and policy counted, he and his associates persisted with their "peculiar little company" until they had proved their plan and established a firm known all over the world as the house with "the strength of Gibraltar."

THE PRUDENTIAL is a remarkably interesting story weaving the personal lives of Prudential's great leaders with the growth and development of the company itself. It tells of the difficulties of adjusting a basic idea to the changing times. Above all it is a book that unfolds the drama of how a great and complex organization meets the challenges of peace and war, boom and disaster, in order to serve the millions of people who rely on it.

Doubleday $5.00


O. SOGLOW